
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Powerleader Science & Technology Group Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

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

(Stock Code: 8236)

**VERY SUBSTANTIAL DISPOSAL
VERY SUBSTANTIAL ACQUISITION
AND
PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION**

A letter from the Board is set out on pages 7 to 32 of this circular.

The EGM will be held at 4th Floor, Research and Development Building, Powerleader Technology Research and Production Base, Guanlan Hi-Tech Industrial Park, Bao'an District, Shenzhen, the PRC on Tuesday, 31 May 2016 at 3:00 p.m.. Further details of the EGM are set out in the notice and announcements issued by the Company on 14 March 2016, 8 April 2016 and 3 May 2016. A form of proxy in respect of the EGM was despatched by the Company on 14 March 2016 and the revised forms of proxy were despatched by the Company on 9 April 2016 and 5 May. Whenever or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of holders of H Shares) or the registered office of the Company at Room 43A, 43rd Floor, Block C, Electronics Science & Technology Building, Shennan Road Central, Futian District, Shenzhen, the PRC (in case of holders of Domestic Shares), no later than 24 hours before the time fixed for holding the relevant meeting or at any adjournment thereof. Completion and delivery of the proxy form will not prevent you from attending, and voting at, the meeting or any adjournment thereof if you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcement" page for a minimum period of 7 days from the date of its posting.

* *For identification purposes only*

11 May 2016

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

| | |
|---------------------------------|---|
| “Acquisition” | the subscription by the Company and PC Research Institute for the Total Consideration Shares to be issued pursuant to the Agreement |
| “Agreement” | the conditional agreement dated 4 January 2016 entered into between the Company, PC Research Institute and Taiji Computer in relation to the Disposal and the Acquisition |
| “Articles of Association” | the articles of association of the Company as amended from time to time |
| “Asset Acquisition Agreement” | the asset acquisition agreement dated 22 December 2015 entered into between the Company and Powerleader Computing in relation to the transfer of Subject Assets from the Company to Powerleader Computing prior to Completion |
| “Asset Impairment Compensation” | the compensation to be made by the Company and PC Research Institute to Taiji Computer when the value of asset impairment of Powerleader Computing is greater than total compensation amount paid under the Profit Guarantee Compensation, details of which are set out in the section headed “Profit Guarantee Compensation Agreement — Asset Impairment Compensation” in the Letter from the Board in this circular |
| “Benchmark Date” | 31 July 2015, the valuation date of Powerleader Computing |
| “Board” | the board of directors of the Company |
| “Business Day” | a day on which commercial banks are generally opened for business in the PRC (excluding Sundays and public holidays) |
| “Buy-back Option” | Taiji Computer’s option to repurchase Taiji Computer Shares held by the Company and PC Research Institute in the event the Company and PC Research Institute are required to make the Profit Guarantee Compensation and/or the Asset Impairment Compensation |
| “close associates” | has the meaning ascribed to it under the GEM Listing Rules |
| “Company” | Powerleader Science & Technology Group Limited* (宝德科技集團股份有限公司), a joint stock company incorporated in the PRC with limited liability whose H Shares are listed on GEM (Stock Code: 8236) |

DEFINITIONS

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| “Company Consideration Shares” | 35,382,843 new Taiji Computer Shares (subject to adjustment) to be allotted and issued, credited as fully paid, to the Company for the settlement of the part of consideration of the Disposal in accordance with the terms of the Agreement |
| “Company Sale Interest” | 90% equity interests of Powerleader Computing owned by the Company |
| “Compensation Period” | the financial year in which the Completion takes place and the two financial years thereafter |
| “Completion” | completion of the Disposal in accordance with the terms of the Agreement |
| “CSRC” | China Securities Regulatory Commission |
| “Director(s)” | the director(s) of the Company |
| “Disposal” | the disposal of the Company Sale Interest and the PCR Sale Interest by the Company and PC Research Institute to Taiji Computer in accordance with the terms of the Agreement, the Asset Acquisition Agreement and the Profit Guarantee Compensation Agreement |
| “Domestic Shares(s)” | the domestic invested shares of nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for in RMB |
| “EGM” | the extraordinary general meeting of the Company to be convened and held at 4th Floor, Research and Development Building, Powerleader Technology Research and Production Base, Guanlan Hi-Tech Industrial Park, Bao’an District, Shenzhen, the PRC on Tuesday, 31 May 2016 at 3:00 p.m. to consider and, if thought fit, to approve, among other things, the Disposal, the Acquisition and the Buy-back Option and the Proposed Articles Amendment |
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries |
| “H Shares” | the overseas listed foreign invested shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on GEM and subscribed for and traded in Hong Kong dollars |

DEFINITIONS

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| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “IaaS Business” | Cloud Infrastructure as a Service — provision of cloud server and cloud storage equipment as well as related solutions |
| “Latest Practicable Date” | 5 May 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular |
| “Liangzi Weiye Acquisition” | the proposed acquisition of 100% equity interests of Beijing Liangzi Weiye Information Company Limited* (北京量子偉業信息技術股份有限公司) by Taiji Computer from its 10 shareholders |
| “MaaS Business” | Cloud Module as a Service — provision of research and development, design, manufacturing and sale of cloud computing equipment related components as well as cloud computing equipment key components agency distribution and related value-added services |
| “PC Consideration Shares” | 3,931,427 new Taiji Computer Shares (subject to adjustment) to be allotted and issued, credited as fully paid, to PC Research Institute for the settlement of the part of consideration of the Disposal in accordance with the terms of the Agreement |
| “PC Research Institute” | Shenzhen Powerleader Cloud Computing Research Institute Limited* (深圳市寶德雲計算研究院有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company |
| “PCR Sale Interest” | 10% equity interests of Powerleader Computing owned by PC Research Institute |
| “Powerleader Computing” | Shenzhen Powerleader Computing System Limited* (深圳市寶德計算機系統有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company |
| “Powerleader Computer System (HK)” | Powerleader Computer System (Hong Kong) Company Limited 寶德計算機(香港)有限公司, a company limited by shares incorporated in Hong Kong and a wholly-owned subsidiary of Powerleader Computing |
| “Powerleader Software” | Shenzhen Powerleader Software Development Limited* (深圳市寶德軟件開發有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Powerleader Computing |
| “PRC” | the People’s Republic of China |

DEFINITIONS

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| “Previous Agreement” | the conditional agreement dated 22 December 2015 entered between the Company, PC Research Institute and Taiji Computer in relation to the Disposal and the Acquisition |
| “Previous Profit Guarantee Compensation Agreement” | the profit guarantee compensation agreement dated 22 December 2015 entered by the Company, PC Research Institute and Taiji Computer |
| “Profit Guarantee Compensation” | the compensation to be made by the Company and PC Research Institute to Taiji Computer for failure to achieve the profit guarantee in respect of Powerleader Computing, details of which are set out in the section headed “Profit Guarantee Compensation Agreement” in the Letter from the Board in this circular |
| “Profit Guarantee Compensation Agreement” | a profit guarantee compensation agreement dated 4 January 2016 entered into by the Company, PC Research Institute and Taiji Computer |
| “Proposed Articles Amendment” | the proposed amendment to the Articles of Association, particulars of which are set out in the section headed “Proposed Amendment to the Articles of Association” in the Letter from the Board in this circular |
| “Proposed Shares Transfer” | the proposed transfer of 15,000,000 Domestic Shares held by Tianjin Chengbai to Yali Anda pursuant to the Share Transfer Agreement |
| “Reference Day” | 23 December 2015, being the announcement date in relation to the resolutions passed at the forty-first meeting of fourth session of the board of directors of Taiji Computer |
| “Relevant Period” | the period commencing after the Benchmark Date to the date of Completion |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SaaS & PaaS Business” | Software and Platform as a Service — provision of development and services of cloud computing related software and platform |
| “SASAC” | State-owned Assets Supervision and Administration Commission of the State Council |

DEFINITIONS

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| “Server and Software Businesses” | mainly comprise of: (i) server related business: including research and development, manufacturing and sales of the servers and their corresponding solutions, which are further divided into servers, storage and others; (ii) private cloud business: to provide clients with overall solutions for the corporation grade cloud computing systems built on Powerleader servers, which include consultancy services, development services and operation management services for the corporation cloud computing platforms; (iii) other research and development businesses such as software or mainboard which are related to businesses described in (i) and (ii); and (iv) other businesses conducted by Powerleader Computing or its subsidiaries before the completion of the Agreement |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) |
| “Share(s)” | H Shares, Domestic Shares and all shares of other class(es) resulting from any sub-division, consolidation or re-classification thereof from time to time in the share capital of the Company |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Share Transfer Agreement” | the share transfer agreement dated 28 July 2015 entered into between Tianjin Chengbai and Yali Anda in relation to the proposed transfer of 15,000,000 Domestic Shares held by Tianjin Chengbai to Yali Anda |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subject Assets” | the assets, rights, interests and obligations of the Group (other than Powerleader Computing) to be transferred to Powerleader Computing and Powerleader Software under the Asset Acquisition Agreement, details of which are set out in the section headed “The Agreement — Transfer of Subject Assets before Completion by way of internal restructuring” in the Letter from the Board in this circular |
| “subsidiary(ies)” | has the meaning ascribed to it under the GEM Listing Rules |
| “Suspension Day” | 14 May 2015, being the date of suspension of trading of the Taiji Computer Shares on the Shenzhen Stock Exchange for planning of the Taiji Computer Transactions |

DEFINITIONS

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| “Taiji Computer” | Taiji Computer Corporation Limited* (太極計算機股份有限公司), a limited company incorporated in PRC with limited liability, the A shares of which are listed on the Shenzhen Stock Exchange (002368.SZ) |
| “Taiji Computer Group” | Taiji Computer and its subsidiaries |
| “Taiji Computer Non-public Issuance” | the proposed non-public issue of new Taiji Computer Shares to not more than 10 qualified specified investors for fund raising by Taiji Computer |
| “Taiji Computer Shares” | the ordinary shares of nominal value of RMB1.00 each in the share capital of Taiji Computer which are listed on the Shenzhen Stock Exchange |
| “Taiji Computer Transactions” | the Disposal, the Liangzi Weiye Acquisition and the Taiji Computer Non-public Issuance |
| “Tianjin Chengbai” | 天津誠柏股權投資合夥企業(有限合夥) (Tianjin Chengbai Capital Fund Investment Partnership (limited partnership)*), a partnership enterprise established in the PRC with limited liability, which is currently holding 15,000,000 Domestic Shares |
| “Total Consideration Shares” | the Company Consideration Shares and the PC Consideration Shares |
| “Total Share Capital” | the aggregate issued share capital of the Company, as at the Latest Practicable Date, being 243,000,000 Shares |
| “Yali Anda” | 烏魯木齊雅利安達股權投資有限公司 (Urumqi Yali Anda Investment Co., Ltd*), a limited liability company incorporated in the PRC |
| “%” | per cent |

* *for identification only*



宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

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

(Stock Code: 8236)

Executive Directors:

Ms. Zhang Yunxia (*Chairman*)
Mr. Dong Weiping
Mr. Ma Zhumao

Non-executive Directors:

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

Independent Non-executive Directors:

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

Registered office:

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The PRC

*Principal place of business
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Unit 105, 1/F,
Sunbeam Centre,
27 Shing Yip Street,
Kwun Tong,
Kowloon, Hong Kong

11 May 2016

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL
VERY SUBSTANTIAL ACQUISITION
AND
PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 23 December 2015, 5 January 2016 and 11 March 2016 in relation to, among other things, the Disposal, the Acquisition, the Buy-back Option and the Proposed Articles Amendment.

* For identification purposes only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, *inter alia*, (i) further details of the Disposal, the Acquisition and grant of the Buy-back Option, (ii) the financial information of the Group, (iii) the financial information of the Server and Software Businesses, (iv) the financial information of Taiji Computer, (v) the management discussion and analysis on Taiji Computer, (vi) the unaudited pro forma financial information of the Group, (vii) the letters in relation to the profit forecast under the valuation on Powerleader Computing, (viii) information on the Proposed Articles Amendment; and (ix) other information as required by the GEM Listing Rules.

2. THE AGREEMENT

On 4 January 2016, the Company, PC Research Institute and Taiji Computer entered into the Agreement, pursuant to which the Company and PC Research Institute conditionally agreed to respectively sell, and Taiji Computer conditionally agreed to purchase, the Company Sale Interest and PCR Sale Interest. The Company Sale Interest and the PCR Sale Interest together represent the entire equity interests of Powerleader Computing, a wholly-owned subsidiary of the Group which directly wholly-owns Powerleader Software and Powerleader Computer System (HK).

Date

4 January 2016

Parties

Vendors: the Company and PC Research Institute

Purchaser: Taiji Computer, the ordinary shares of which are listed on the Shenzhen Stock Exchange

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Taiji Computer and each of the controlling shareholders, directors, supervisors and substantial shareholders of Taiji Computer are third parties independent of the Company and its connected persons.

Asset to be disposed of

Pursuant to the Agreement, the Company and PC Research Institute have conditionally agreed to respectively sell the Company Sale Interest and the PCR Sale Interest (together representing the entire equity interests of Powerleader Computing (which wholly-owns Powerleader Software and Powerleader Computer System (HK))) to Taiji Computer.

Transfer of Subject Assets before Completion by way of internal restructuring

The Company agreed to transfer the Subject Assets related to the Server and Software Businesses held by the Group (other than Powerleader Computing) at nil consideration to Powerleader Computing and Powerleader Software pursuant to an internal restructuring of the Group before the Completion to ensure that Powerleader Computing can operate those

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businesses independently after the Completion. The Subject Assets to be transferred include (among other things) registered trademarks, patents, software copyrights, other intangible assets and fixed assets, customer lists and the corresponding list of contracts, employees and account payables and account receivables.

On 22 December 2015, the Company and Powerleader Computing entered into the Asset Acquisition Agreement which set out the detailed lists of the Subject Assets and the procedures for transferring the Subject Assets to Powerleader Computing and Powerleader Software before Completion.

Accordingly, under the Disposal, the Group will be disposing of the Server and Software Businesses carried on by Powerleader Computing, Powerleader Computer System (HK) and Powerleader Software comprising its interests in (i) a substantial part of the IaaS Business of the Group carried out through Powerleader Computing and Powerleader Computer System (HK); and (ii) part of the SaaS & PaaS Business of the Group carried out through Powerleader Software.

As at the Latest Practicable Date, apart from trademarks and patents the transfers of which are expected to be completed by end of May 2016, the transfer of Subject Assets including documents, information, relevant employees, business, customers, account payables and account receivables, contracts, fixed assets, software copyrights and other intangible assets from the Group to Powerleader Computing and Powerleader Software had been completed.

The audited book value and audited net book value of the Server and Software Businesses carried on by Powerleader Computing, Powerleader Computer System (HK) and Powerleader Software, based on PRC accounting standards, were approximately RMB822,119,620.87 and RMB291,344,851.16 respectively as at 31 December 2015. Therefore, the excess of the consideration for the Disposal over the net book value of the Server and Software Businesses as at 31 December 2015 was RMB1,374,655,148.84.

The following is the financial information of the Server and Software Businesses carried on by Powerleader Computing and Powerleader Software for the year ended 31 December 2014 (audited), and of the Server and Software Businesses carried on by Powerleader Computing, Powerleader Computer System (HK) and Powerleader Software for the year ended 31 December 2015 (audited) respectively, prepared in accordance with the applicable accounting standards in the PRC:

| | For the year ended 31 December 2015 (audited) | For the year ended 31 December 2014 (audited) |
|----------------------------|--|--|
| Net profit before taxation | RMB85,658,270.60 | RMB76,640,223.35 |
| Net profit after taxation | RMB69,933,650.18 | RMB68,348,200.85 |

Powerleader Computing is a wholly-owned subsidiary of the Group held by the Company as to 90% and by PC Research Institute as to 10%. Upon Completion, the Group will no longer hold any equity interest in Powerleader Computing, Powerleader Computer System

LETTER FROM THE BOARD

(HK) or Powerleader Software. Powerleader Computer System (HK) and Powerleader Computing and Powerleader Software will cease to be subsidiaries of the Group and their financial results will cease to be consolidated into the Group's financial results.

Consideration

The consideration for the Disposal in the sum of RMB1,666,000,000 will be satisfied upon Completion (i) as to RMB224,910,000 by cash to the Company, (ii) as to RMB24,990,000 by cash to PC Research Institute, (iii) as to RMB1,274,490,000 by the allotment and issue of the Company Consideration Shares by Taiji Computer to the Company, and (iv) as to RMB141,610,000 by the allotment and issue of the PC Consideration Shares by Taiji Computer to PC Research Institute. An application will be made by Taiji Computer to the Shenzhen Stock Exchange for the listing of and permission to deal in the Total Consideration Shares.

In the Previous Agreement (which was replaced and superseded by the Agreement), the issue price of the Total Consideration Shares was RMB36.00 per Taiji Computer Share and the number of Total Consideration Shares was 39,336,111 new Taiji Computer Shares. The Agreement amended the issue price of the Total Consideration Shares from RMB36.00 to RMB36.02 per Taiji Computer Shares, and therefore the number of Taiji Computer Shares comprised in the Total Consideration Shares was changed to 39,314,270 new Taiji Computer Shares. The issue price of the Total Consideration Shares is still subject to adjustment (as further described below). However, based on the issue price of RMB36.02 per Taiji Computer Shares as provided in the Agreement, the Total Consideration Shares represent approximately 9.46% of the issued share capital of Taiji Computer as at the Latest Practicable Date and approximately 8.64% of the issued share capital of Taiji Computer as enlarged by the issue and allotment of the Total Consideration Shares, assuming there is no other issue or repurchase of shares by Taiji Computer prior to the Completion.

The percentage of issued share capital of Taiji Computer represented by the Total Consideration Shares will be reduced to approximately 8.47% after the issue of the new Taiji Computer Shares as consideration for the Liangzi Weiye Acquisition, and further reduced to approximately 7.77% after the issue of the maximum number of new Taiji Computer Shares under the Taiji Computer Non-public Issuance (see descriptions in the section "The Taiji Computer Transactions" below), assuming there is no other issue or repurchase of shares by Taiji Computer prior to completion of the Taiji Computer Transactions.

Once issued, the Total Consideration Shares will rank *pari passu* in all respects of the then existing Taiji Computer Shares in issue. The number of Taiji Computer Shares to be allotted to the Company and PC Research Institute for the consideration for the Disposal will not result in the Group obtaining control of Taiji Computer. These Taiji Computer Shares will be recognized as long term equity investment in the books of the Company.

LETTER FROM THE BOARD

Basis of Consideration

Valuation on Powerleader Computing

The consideration of the Disposal was arrived at after commercial and arm's length negotiations between the Group and Taiji Computer and was determined with reference to the valuation of Powerleader Computing at RMB1,681,791,700 as at the Benchmark Date by an independent valuer using the income approach. Such result of valuation on Powerleader Computing has been confirmed in the valuation report issued by the independent valuer, the text of which is set out in Appendix VII of this circular.

The principal assumptions used in the valuation of Powerleader Computing were as follows:

(i) General assumptions

1. Assumption of transaction: All assets to be assessed are assumed to be already in the course of the transaction, the valuer conducts the valuation based on a simulated market, including the terms of transaction of the assets to be assessed.
2. Assumption of open market: This is an assumption on the market conditions of the market to be entered into by the assets and the impacts of such market conditions on the assets. Open market refers to competitive market with developed and perfected market conditions as well as a willing buyer and a willing seller each having, on an equal status, the opportunities and time to obtain market information, whereby the transaction is conducted on a voluntary, rational, non-mandatory and unrestricted basis by the buyer and the seller.
3. Assumption of continuous utilisation: This is an assumption on the conditions of the market to be entered by the assets and the status of the assets under such market conditions. Firstly, the assets to be assessed are assumed to be in a state of utilization. Secondly, such assets in use are assumed to be utilized continuously. Under the conditions of continued utilization of assets, without taking into account change of utilization or the best usage of the assets, the use of their valuation results is limited in scope.
4. Assumption of going concern: it is assumed that the corporation will continue in operation in the coming financial year and will not cease operations in the foreseeable future.
5. Assumption of non-permanent tax incentives: at present, the company belongs to high-tech enterprise and enjoys the 15 percent preferential tax rate. The current valuation assumes the company will continue to enjoy the 15 percent preferential tax rate before 2020. After 2020 (including 2020), the company will not be able to enjoy the 15 percent preferential tax rates. However, in order to maintain its leading position in the industry, it will still have to incur corresponding expenses on research and development, etc.

LETTER FROM THE BOARD

6. Assumption of overall management stability: it is assumed that the existing core management staff of the company is stable and dedicates full-time effort for the company's development. Phenomena that affects the company's management, such as termination and sabotage, does not exist.

(ii) Special Assumptions

1. The external economic environment was assumed to have remained unchanged and the current macro economy of the PRC was assumed to have no significant change as at the Benchmark Date;
2. The social and economic environment, as well as the implemented policies in relation to the tax and tax rate, etc. of Powerleader Computing was assumed to have no significant change;
3. It was assumed that the future management of the corporation would be diligent and that the existing management model would be maintained;
4. Being the assets assessed were based on the premise of actual stock as at the Benchmark Date and the current market value of the relevant assets was based on the effective domestic prices as at the Benchmark Date;
5. It was assumed that the accounting policies adopted by the entity being assessed after the Benchmark Date would be consistent in all material respects with the accounting policies adopted when this valuation report was prepared;
6. It was assumed that the existing management model and quality, the business scope and mode of operation of entity being assessed after the Benchmark Date will remain unchanged;
7. It was assumed that the basic and financial information provided by Taiji Computer and Powerleader Computing is true, accurate and complete.

The major inputs for valuation of Powerleader Computing are as follows:

Discount rate:

1. From the Benchmark Date until the year of 2019: 11.526%
2. After the year of 2020: 11.471%

Growth rate:

1. Sales revenue for the years 2015, 2016, 2017, 2018, 2019, 2020 and 2021 are 59%, 44%, 29%, 30%, 15%, 9%, 0% respectively.
2. Operating cost for the years 2015, 2016, 2017, 2018, 2019, 2020 and 2021 are 64%, 44%, 29%, 30%, 16%, 10%, 0% respectively.

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The major inputs for valuation of Powerleader Software are as follows:

Discount rate:

1. From the Benchmark Date until the year of 2019: 11.514%
2. After the year of 2020: 11.503%

Growth rate:

1. Sales revenue for the years 2015, 2016, 2017, 2018, 2019, 2020 and 2021 are -3.7%, 40.0%, 29.1%, 30.5%, 15.8%, 9.7%, 0.0% respectively.
2. Operating cost for the years 2015, 2016, 2017, 2018, 2019, 2020 and 2021 are -3.7%, 40.0%, 29.1%, 30.5%, 15.8%, 9.7%, 0.0% respectively.

As the valuation on Powerleader Computing referred to above was prepared using the income approach, it is regarded as a profit forecast under Rule 19.61 of the GEM Listing Rules. A letter from ShineWing Certified Public Accountants (Special General Partnership), the reporting accountant of the Company, confirming that it has reviewed the accounting policies and calculations for the profit forecast, is set out in Appendix VI to this circular. A letter from the Board, confirming that it has made the profit forecast after due and careful enquiry, is also set out in Appendix VI to this circular.

The issue price per Taiji Computer Share of the Total Consideration Shares

The average traded price of the Taiji Computer Shares as quoted on the Shenzhen Stock Exchange over the 120 trading days preceding the Reference Day was RMB60.237 per Taiji Computer Share. It is agreed that the issue price of the Total Consideration Shares shall be no less than 90% of average trading price of the Taiji Computer Shares as quoted on the Shenzhen Stock Exchange over the 120 trading days preceding the Reference Day, meaning that the issue price of the Total Consideration Shares shall not be less than RMB54.22 per share of Taiji Computer.

During the period from the Suspension Day until the Reference Day, Taiji Computer implemented its distribution of a cash dividend of RMB2.2 (including tax) for every 10 shares and an increase of 5 shares for every 10 shares converted from its capital reserve. After taking into account such distribution of dividends and conversion of capital reserve into share capital by Taiji Computer, the issue price of the Total Consideration Shares is adjusted by the formula of $(60.237 - 0.22) / (1 + 0.5)$ to become RMB40.011 per Taiji Computer Share.

After applying a 10% discount, the issue price was adjusted to RMB36.010 per Taiji Computer Share. After negotiations between the Group and Taiji Computer, the issue price of the Total Consideration Shares was determined to be RMB36.02 per Taiji Computer Share.

LETTER FROM THE BOARD

In case of any ex-dividend and ex-rights events of Taiji Computer such as distribution of dividend, bonus issue or conversion of capital reserve into share capital from the Reference Day up to the date of issue of the Total Consideration Shares, the issue price of the Total Consideration Shares will be adjusted correspondingly.

Issue price adjustment mechanism

The Agreement also contains a mechanism for adjustment to the issue price of the Total Consideration Shares, which is subject to approval by the SASAC and approval by the shareholders in general meeting of Taiji Computer, as described below.

If during the period from the date of announcement of the resolutions at the shareholders' meeting of Taiji Computer to approve the Taiji Computer Transactions up to the date the Taiji Computer Transactions are approved by the CSRC, one of the following triggering events for the price adjustment occurs:

- (a) the weighted arithmetic average of the trading price of each of Taiji Computer and four other companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange in the same industry, namely China National Software & Service Company Limited* (中國軟件) (600536.SH), Neusoft Corporation* (東軟集團) (600718.SH), DHC Software Co., Ltd* (東華軟件) (002065.SZ) and Shanghai East-China Computer Co., Ltd* (華東電腦) (600850.SH) for 20 trading days immediately preceding any trading day is lower than the respective weighted arithmetic average of the trading price of such companies for the 20 trading days immediately preceding the Suspension Day by more than 10%; or
- (b) the closing point of the software and service index* (軟件與服務指數)(882119.WI) for at least 20 trading days in a period of 30 consecutive trading days immediately preceding any trading day falls more than 10% compared to the closing point (12,013.04) on the trading day immediately preceding the Suspension Day, i.e. 13 May 2015,

the trading day on which at least one of the above triggering events occurs becomes the "reference day for price adjustment".

Taiji Computer will then be entitled to convene a meeting of its board of directors within 7 working days after the reference day for price adjustment to consider whether the issue price of the Total Consideration Shares should be adjusted to 90% of the average trading price of Taiji Computer Shares for the 20 trading days immediately preceding the reference day for price adjustment (excluding the reference day for price adjustment).

It is expected that the adjustment to the issue price of the Total Consideration Shares under the mechanism described above will be considered after the date of the EGM. Should there be any adjustment to the issue price of the Total Consideration Shares resulting in a change in the number of Taiji Computer Shares comprising the Total Consideration Shares, the Company will issue a further announcement to disclose the same.

LETTER FROM THE BOARD

The Taiji Computer Transactions

The Company understands that together with the Disposal, Taiji Computer is at the same time also proposing the following transactions:

(i) Liangzi Weiye Acquisition

Taiji Computer proposes to acquire the entire equity interests in a company named Beijing Liangzi Weiye Information Company Limited* (北京量子偉業信息技術股份有限公司) from its ten shareholders at a consideration determined on a preliminary basis to be RMB421 million, to be satisfied partly by cash in the aggregate amount of RMB83,775,600 and the remainder by the issue of 9,362,143 Taiji Computer Shares.

(ii) Taiji Computer Non-public Issuance

Taiji Computer proposes to issue up to 41,788,549 new Taiji Computer Shares to not more than 10 specific investors, to raise funds not more than the considerations for the Disposal and for the Liangzi Weiye Acquisition and in any event not more than RMB2 billion.

Liangzi Weiye Acquisition and Taiji Computer Non-public Issuance are transactions to be carried out by Taiji Computer with parties independent of the Company and its connected persons. The Disposal, the Liangzi Weiye Acquisition and the Taiji Computer Non-public Issuance altogether form a series of transactions which are considered by Taiji Computer at the same time, therefore Liangzi Weiye Acquisition and Taiji Computer Non-public Issuance are included as conditions under the Agreement (see section on “Taking Effect of the Agreement” below). The Company understands from Taiji Computer that the Disposal and Liangzi Weiye Acquisition are pre-conditions for the Taiji Computer Non-public Issuance, but the Taiji Computer Non-public Issuance is not a condition of the Disposal and the Liangzi Weiye Acquisition. As at the Latest Practicable Date, Liangzi Weiye Acquisition and Taiji Computer Non-public Issuance had been approved by the board of directors of Taiji Computer but pending the approval by shareholders of Taiji Computer.

Taking Effect of the Agreement

The Agreement shall take effect subject to the fulfillment of the following conditions (the effective date being the date of fulfillment of the last of these conditions):

- (a) the approval of the Taiji Computer Transactions by the board of directors and shareholders of Taiji Computer;
- (b) the Company and PC Research Institute having duly completed the relevant formalities in accordance with applicable laws, rules and regulations (including the GEM Listing Rules), including the approval by the Board and the Shareholders of the Disposal, the Acquisition and the grant of the Buy-back Option;
- (c) execution of the Agreement by the authorized representatives of the Company, PC Research Institute and Taiji Computer;

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- (d) the clearance of the anti-trust investigation in relation to the Taiji Computer Transactions with the Ministry of Commerce of the PRC;
- (e) the completion of filing of the valuation report in relation to the Disposal with the SASAC;
- (f) the approval by the SASAC of the Taiji Computer Transactions; and
- (g) the approval of the Taiji Computer Transactions by the CSRC.

The above condition (b) under the Previous Agreement (which was replaced and superseded by the Agreement) had been amended under the Agreement to include the approval by the Board of the Disposal, the Acquisition and the grant of the Buy-back Option. None of the above conditions is waivable by the Company, PC Research Institute or Taiji Computer. As at the Latest Practicable Date, only condition (c) above had been fulfilled.

Completion

Completion shall take place within two months after the above conditions of the Agreement have been fulfilled.

Non-competition undertakings

Each of the Company and PC Research Institute have undertaken to Taiji Computer that during the time when it holds Taiji Computer Shares, and Ms. Zhang Yunxia and Mr. Li Ruijie (both being Directors and the controllers of the Company and PC Research Institute) have also undertaken with Taiji Computer that during the time when he or she directly or indirectly holds Taiji Computer Shares:

- (1) it/he/she shall not in whatever manner (including but not limited to joint ventures, cooperation, investment, merger or entrusted operations, excluding equity participation, within and/or outside the PRC):
 - carry on, participate in or assist others to carry on any business or other operational activities that is the same as or similar to or in direct or indirect competition with the businesses of Taiji Computer, Powerleader Computing or their subsidiaries carried on at such time; or
 - invest (excluding equity participation) in any economic entity that directly or indirectly competes with the businesses carried on by Taiji Computer, Powerleader Computing or their subsidiaries carried out at such time.
- (2) if itself/herself/himself or an enterprise it/she/he controls obtains any commercial opportunity from a third party that competes or may compete with the principal business of Taiji Computer, Powerleader Computing or their subsidiaries, it/she/he shall immediately inform Taiji Computer and after consent by the third party endeavor to give that commercial opportunity to Taiji Computer, Powerleader Computing or their subsidiaries.

LETTER FROM THE BOARD

- (3) it/she/he shall not make use of any understanding and obtained information about Taiji Computer, Powerleader Computing and Powerleader Software to assist a third party to carry on, participate or invest in businesses or projects that compete with Taiji Computer, Powerleader Computing or their subsidiaries.

The businesses of Powerleader Computing or its subsidiaries referred to under the above undertakings are the Server and Software Businesses. The businesses of Taiji Computer referred to under the above undertakings are the businesses carried on by Taiji Computer before the completion of the Taiji Computer Transactions.

Under the Asset Acquisition Agreement, the Company has also given the above undertakings to Powerleader Computing. In addition, the Company undertakes to Powerleader Computing:

- not to provide proprietary technology or trade secrets such as sales channels or client information to persons, entities or organizations that carry on business same as, similar to or in competition with Powerleader Computing, Powerleader Software and their subsidiaries.
- not to disclose its understanding or confidential information obtained from Powerleader Computing and Powerleader Software to any third party or use the same for purpose detrimental to the legitimate interest of Powerleader Computing and Powerleader Software without their prior written consent.
- not to directly or indirectly enter into business agreements and follow-up services agreements with clients of Powerleader Computing and Powerleader Software.

Profit and Loss of Powerleader Computing during the Relevant Period

The Company, PC Research Institute and Taiji Computer further agreed that:

1. during the Relevant Period, Powerleader Computing will not declare any dividends;
2. during the Relevant Period (up to the date of the last month end in such period), the profits of Powerleader Computing will belong to Taiji Computer and the loss of Powerleader Computing will be borne by the Company and PC Research Institute; and
3. within 30 Business Days after the date of completion of the Agreement, a qualified audit firm, which is agreed by the Company and Taiji Computer, will perform audit of Powerleader Computing for the Relevant Period and shall issue an audit report to confirm the amount of profit and loss.

PROFIT GUARANTEE COMPENSATION AGREEMENT

Date

4 January 2016

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Parties

- (1) The Company and PC Research Institute
- (2) Taiji Computer

Profit Guarantee

The Company and PC Research Institute confirmed and undertook that Powerleader Computing shall achieve the net profit amounts during the Compensation Period as arrived at after commercial and arm's length negotiations between the Company and Taiji Computer and determined with reference to the net profit attributable to shareholders of Powerleader Computing after deducting extraordinary items in its consolidated accounts based on the valuation of Powerleader Computing using the income approach. The Company, PC Research Institute and Taiji Computer will enter into a supplemental agreement after the valuation report of Powerleader Computing is filed with SASAC to confirm the final forecasted net profit amount during the Compensation Period.

Profit Guarantee Compensation

Pursuant to the Profit Guarantee Compensation Agreement, a qualified accounting firm, as agreed by the Company and Taiji Computer, will perform audit of Powerleader Computing at the end of each financial year during the Compensation Period. If the audited net profit attributable to shareholders of Powerleader Computing after deducting extraordinary items in the consolidated accounts for the financial years ended 31 December 2016, 2017 and 2018 fall short of RMB121,915,400 (2016), RMB159,622,300 (2017) and RMB213,757,000 (2018) respectively, subject to final confirmation by the parties after the valuation report on Powerleader Computing has been filed with SASAC, the Company and PC Research Institute will have to pay compensation to Taiji Computer in the form of Taiji Computer Shares.

The formula for the number of Taiji Computer Shares to be paid as compensation under the Profit Guarantee Compensation for each year is calculated as follows:

(the guaranteed cumulative net profit as at the end of relevant period – the actual cumulative net profit as at the end of relevant period) ÷ the total sum of guaranteed net profit in each year during the Compensation Period × the total consideration of the Disposal ÷ issue price per Total Consideration Share – the number of Taiji Computer Shares previously paid as compensation.

Asset Impairment Compensation

At the end of the Compensation Period, a qualified accounting firm, as agreed by the Company and Taiji Computer, will perform asset impairment test on Powerleader Computing for the Compensation Period. If the value of asset impairment is larger than the total compensation amount paid by the Company and PC Research Institute under the Profit Guarantee Compensation (being the product between the total number of Taiji Computer Shares paid as compensation during the Compensation Period and the issue price

LETTER FROM THE BOARD

of the Total Consideration Shares), the Company and PC Research Institute will pay a separate Asset Impairment Compensation to Taiji Computer in addition to the Profit Guarantee Compensation.

The formula for the number of Taiji Computer Shares to be paid as compensation under the Asset Impairment Compensation is calculated as follows:

the impairment value of Powerleader Computing as at the end of the Compensation Period
÷ issue price per Total Consideration Share – the number of Taiji Computer Shares previously paid as compensation during the Compensation Period

Buy-back Option of Taiji Computer

If the Company and PC Research Institute are required to pay compensation to Taiji Computer under the Profit Guarantee Compensation and the Asset Impairment Compensation as described above, such compensation shall be paid by the Company and PC Research Institute to Taiji Computer in the form of Taiji Computer Shares, which will entitle Taiji Computer the right to exercise the Buy-back Option to repurchase Taiji Computer Shares held by the Company and PC Research Institute at a nominal consideration of RMB1.00. In the event that the Company and PC Research Institute do not hold enough Taiji Computer Shares to compensate Taiji Computer, the Company and PC Research Institute will have the obligation to purchase Taiji Computer Shares from the market in order to pay enough compensation to Taiji Computer. In case the Company fails to purchase Taiji Computer Shares from the market in order to pay enough compensation to Taiji Computer, the Company will be in breach of its obligation as required under the Profit Guarantee Compensation Agreement. In that case, the Company and PC Research Institute will have to compensate Taiji Computer either in cash or by delivering the outstanding number of Taiji Computer Shares when they are able to acquire the same from the market, depending on Taiji Computer's request.

In the Previous Profit Guarantee Compensation Agreement (which was replaced and superseded by the Profit Guarantee Compensation Agreement), the issue price of the Total Consideration Shares was RMB36.00 per Taiji Computer Share for the purpose of calculation of the Profit Guarantee Compensation and the Asset Impairment Compensation. The issue price of the Total Consideration Shares was amended to RMB36.02 per Taiji Computer Share in the Profit Guarantee Compensation Agreement.

Based on issue price of RMB36.02 per Taiji Computer Share (subject to adjustment) and the consideration of the Disposal of RMB1,666,000,000, the maximum number of Taiji Computer Shares to be given up by the Company and PC Research Institute under the Profit Guarantee Compensation and the Asset Impairment Compensation becomes 46,252,082 Taiji Computer Shares which is calculated as follows:

the total consideration of the Disposal (being RMB1,666,000,000) ÷ the issue price of the Total Consideration Shares (being RMB36.02 per Taiji Computer Share)

LETTER FROM THE BOARD

The above maximum number of Taiji Computer Shares to be given up by the Company and PC Research Institute as compensation exceeds the number of Taiji Computer Shares comprised in the Total Consideration Shares by the amount equivalent to the cash portion of the consideration for the Disposal (i.e. RMB249,900,000). In the event the Company and PC Research Institute are required to make such maximum compensation, they would have to acquire additional Taiji Computer Shares to make compensation to Taiji Computer for the amount equivalent to RMB249,900,000.

Non-disposal undertakings

Non-disposal undertakings by the Company

Pursuant to the Agreement, subject to Completion, the Company has undertaken to Taiji Computer that for a period of 12 months from the listing date of the Company Consideration Shares, the Company will not transfer any of the Company Consideration Shares. After the expiry of such twelve-month period, the Company Consideration Shares will be released from lock-up according to the following schedule:

| Time period | Cumulative number of Company Consideration Shares to be released from lock-up |
|--|---|
| After 12 months from the listing date of the Company Consideration Shares and the issuance of special audit report for the first year of the Compensation Period | 40% of the Company Consideration Shares less the number of Taiji Computer Shares surrendered as compensation under the Profit Guarantee Compensation for the first year of the Compensation Period |
| After 24 months from the listing date of the Company Consideration Shares and the issuance of the special audit report for the second year of the Compensation Period | 70% of the Company Consideration Shares less the number of Taiji Computer Shares surrendered as compensation under the Profit Guarantee Compensation for thesecond year of the Compensation Period |
| After 36 months from the listing date of the Company Consideration Shares and the issuance of the special audit report for the third year of the Compensation Period and the asset impairment audit report | 100% of the Company Consideration Shares less the number of Taiji Computer Shares surrendered as compensation under the Profit Guarantee Compensation for the third year of the Compensation Period and the Asset Impairment Compensation |

Non-disposal undertaking by PC Research Institute

Pursuant to the Agreement, subject to Completion, PC Research Institute has undertaken to Taiji Computer that it shall not transfer the PC Consideration Shares within 36 months from the listing date of such PC Consideration Shares. After the expiry of such 36-month

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period, PC Research Institute may transfer the PC Consideration Shares only after the issuance of the special audit report of the immediately preceding year and the asset impairment audit report.

3. REASONS FOR AND BENEFITS EXPECTED TO ACCRUE FROM THE DISPOSAL, THE ACQUISITION AND THE GRANT OF BUY-BACK OPTION

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

- (i) Cloud Infrastructure as a Service — provision of cloud server and cloud storage equipment as well as related solutions;
- (ii) Cloud Module as a Service — provision of R&D, design, manufacturing and sale of cloud computing equipment related components as well as cloud computing equipment key components agency distribution and related value-added services; and
- (iii) Software and Platform as a Service — provision of development and services of cloud computing related software and platform.

Following the Completion, the Group shall continue to carry on the remaining small part of the IaaS Business (being the resale of server related computer products in Hong Kong), the MaaS Business and the remaining part of the SaaS & PaaS Business (comprising internet data centers and public cloud computing) (collectively the “**Remaining Businesses**”). The Group can implement its business strategy of centralizing its resources to enhance the development of its core business (i.e. cloud computing and internet data center). Following the Completion, the Group can utilise the currently available funds of the Group to focus on the expansion and development of the Remaining Businesses. The Company expects that the financial structure of the Remaining Businesses can be improved and the competitive advantage of the Group in the market can be strengthened. The Company intends that business plans for the Remaining Business after the Completion will be as follows:

1. MaaS Business: the Company will continue to strengthen the cloud computing segment, reinforce the Company's core brand core competitiveness, strengthen the sales system construction, improve standard of sales management, broaden the scope of cooperation with suppliers, expand the products distribution system by agents, actively expand business channels partners, provide timely and adequate support in components and professional technical support for business channels partners and clients in the industry in order to maintain the Company's market position as the leading supplier for cloud computing related components in China.
2. Public cloud computing business: the Company will accelerate the development of public cloud services, given the demand in relevant applications in relation to cloud computing and big data, it will provide high-quality, diversified and customized data storage services and network consulting services to clients.

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3. Internet data centers business: it is the goal of the Company to become the leading internet infrastructure and cloud computing service provider, the Company will focus on developing its internet data center business and build a number of internet computing data centers in order to achieve collection, storage, analysis and exploration of vast amount of information.

Taiji Computer, whose shares are listed on the Shenzhen Stock Exchange, is principally engaged in the provision of information technology services. Through acquisition of the Powerleader Computing by Taiji Computer, integration can be achieved and synergy can be created between the computing hardware business (which forms part of the Server and Software Businesses) and the computing software business of Taiji Computer. Revenue growth of Taiji Computer can be sustained and competitiveness of Taiji Computer in the market can be enhanced. As the major portion of the consideration of the Disposal will be settled by the issue of the Total Consideration Shares to the Group, the prospects of revenue growth, boost in share price and dividend distribution of the Taiji Computer will bring potentially substantial benefits to the Group which will become a shareholder of the Taiji Computer following the Completion. Depending on the business development plan and future development strategy of the Company and for the purpose of increasing the general working capital of the Company, the Group may dispose of part of the Total Consideration Shares after the expiry of the lock-up periods as mentioned under the section headed “Non-disposal undertakings”.

The Company intends to use the net proceeds (after deducting the relevant costs and expenses in connection with the Disposal) for repayment of bank loans which amounted to approximately RMB1.48 billion as at 31 December 2015 and for investments in fixed assets, of which RMB60 million is expected to be used in the construction of internet data center in Shenzhen and RMB165 million is expected to be used in the construction of internet data center in Guangzhou.

The Directors consider that the terms of the Buy-back Option are fair and reasonable and in the interests of the Company and the Shareholders as a whole after considering the following:

1. The maximum compensation amount to be paid by the Company and PC Research Institute under the Profit Guarantee Compensation and the Asset Impairment Compensation shall not exceed the total consideration of the Disposal, and such total consideration is based on a valuation by an appraised institution with due qualifications using a valuation method commonly adopted in the market.
2. The calculation for the Profit Guarantee Compensation is with reference to the audited net profit attributable to the shareholders of Powerleader Computing after deducting extraordinary items in its consolidated accounts for the financial years ending 31 December 2016, 2017 and 2018, which the Company considers to be a normal commercial term and was arrived at after arms-length negotiations with Taiji Computer.

LETTER FROM THE BOARD

3. After the Completion, the Group will become the second largest shareholder of Taiji Computer, and the Directors expect that the Company will benefit from the synergies generated from the businesses integration of Taiji Computer and Powerleader Computing.

Based on the above reasons and benefits, the Directors consider that the terms of the Disposal, the Acquisition and the Buy-back Option are fair and reasonable, and these transactions are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The amounts of consolidated net profit attributable to shareholders of Powerleader Computing after deducting extraordinary items for 2016, 2017 and 2018 guaranteed by the Company and PC Research Institute are based on reasonable assumptions and bases involving a comprehensive assessment by the Group of the current research capabilities, operational capabilities and future development prospects of Powerleader Computing. The Directors thus consider the arrangement under the Buy-back Option to be fair and reasonable, even though it might result in up to the entire value of the consideration for the Disposal being returned to Taiji Computer in case the Company and PC Research Institute are required to make the Profit Guarantee Compensation and the Asset Impairment Compensation, without the Group taking back any portion of the equity interest in Powerleader Computing. On the other hand, there are various uncertain factors that might affect the actual profits of Powerleader Computing during the Compensation Period, including changes in the macroeconomic environment, industry development trend, the business incentive policies of the PRC government, as well as the decision-making and operational capabilities of the management of Powerleader Computing. Although the Group took a prudent approach in estimating the amounts of profit of Powerleader Computing to be guaranteed, due to the aforesaid uncertainties, there is a risk that the actual profits of Powerleader Computing may fall short of the amounts guaranteed by the Company and PC Research Institute to Taiji Computer, leading to the Profit Guarantee Compensation and the Asset Impairment Compensation being required to be made. **Shareholders are advised to exercise caution when considering how to voting on the resolution to approve the Agreement, the Asset Acquisition Agreement, the Profit Guarantee Compensation Agreement and the transactions contemplated thereunder.**

4. FINANCIAL EFFECTS OF THE DISPOSAL AND THE ACQUISITION

Assets and liabilities

As disclosed in the annual report of the Company for the year 2015 (the “**2015 Annual Report**”), the net asset value of the Group amounted to RMB825,738,249.47 as at 31 December 2015. As at 31 December 2015, the assets under the Disposal had a net asset value of RMB291,344,851.16. The assets under the Disposal will be excluded from the Group’s financial statements, the Acquisition will increase the long term equity investment of the Group by RMB1,416,100,000.00, coupled with the increase in cash and cash equivalents of RMB249,900,000.00 from the Disposal, it is expected that after the completion of the Disposal and the Acquisition, the net asset value of the Group will increase by RMB1,628,515,000.00.

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As disclosed in the 2015 Annual Report, the Group had total liabilities of RMB1,977,180,833.51 as at 31 December 2015. The assets under the Disposal recorded total liabilities of RMB530,774,769.71 as at 31 December 2015. It is expected that after the completion of the Disposal and the Acquisition, the liabilities of the assets under the Disposal will be excluded from the Group's financial statements, the Acquisition will bring tax and levy payables of RMB37,485,000.00. It is expected that the total liabilities of the Group will decrease by approximately 5.62%.

Earnings

As disclosed in the 2015 Annual Report, for the year ended 31 December 2015, the Group recorded a net profit attributable to shareholders of the Company of RMB21,269,795.44. For the year ended 31 December 2015, the assets under the Disposal recorded a net profit attributable to shareholders of the Company of RMB69,933,650.18. After the completion of the Disposal and Acquisition, the net profit attributable to shareholders of the Company contributed by the assets under the Disposal will be excluded from the Group's financial statements, the Acquisition will bring a gain on investment of RMB1,666,000,000.00, and the income tax expenses will increase by RMB37,485,000.00, the net profit attributable to shareholders of the Company will increase by approximately RMB1,628,515,000.00, equivalent to an increase of approximately 7,342.02%.

The Group expects the Disposal will record an investment income of the Company of RMB1,666,000,000.00, the corresponding provision for corporate income tax is RMB37,485,000.00, accordingly the net gain of the Company will be RMB1,628,515,000.00.

5. INFORMATION ON POWERLEADER COMPUTING

Powerleader Computing is a company incorporated in the PRC with limited liability and has a registered capital of RMB38,000,000. The equity interests in Powerleader Computing is owned as to 100% by the Company before the Completion.

Powerleader Computing is principally engaged in production and sale of computer hardware and peripherals, computer parts and sale of computer software.

The audited net assets of Powerleader Computing, based on PRC accounting standards, was RMB7,960,506.71 as at 31 December 2015.

The following is the financial information of Powerleader Computing for the years ended 31 December 2014 (audited) and 31 December 2015 (audited) respectively, which were prepared in accordance with the applicable accounting standards in the PRC:

| | For the year ended 31 December 2015 (audited) | For the year ended 31 December 2014 (audited) |
|----------------------------|--|--|
| Net profit before taxation | RMB20,559,998.92 | RMB-11,055,478.15 |
| Net profit after taxation | RMB18,210,328.31 | RMB-8,837,390.04 |

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6. INFORMATION ON POWERLEADER COMPUTER SYSTEM (HK)

Powerleader Computer System (HK) is a company limited by shares that was incorporated in Hong Kong on 29 July 2015. It has a share capital of US\$1,000,000 that was paid-up by Powerleader Computer in December 2015. All the issued shares in Powerleader Computer System (HK) are owned by Powerleader Computing.

Powerleader Computer System (HK) is principally engaged in the sale of hardware and parts related to servers manufactured by Powerleader Computing.

The audited net assets of Powerleader Computer System (HK), based on PRC accounting standards, was approximately RMB6,531,718.86 as at 31 December 2015.

The following is the financial information of Powerleader Computer System (HK) for the year ended 31 December 2015 (audited), which was prepared in accordance with the applicable accounting standards in the PRC:

| | For the year ended 31 December 2015 (audited) |
|----------------------------|--|
| Net profit before taxation | RMB112,118.40 |
| Net profit after taxation | RMB93,618.86 |

7. INFORMATION ON POWERLEADER SOFTWARE

Powerleader Software is a company incorporated in the PRC with limited liability and has a registered capital of RMB10,000,000. The equity interests in Powerleader Software is owned as to 100% by Powerleader Computing.

Powerleader Software is principally engaged in computer hardware and software development, network technology development (excluding provision of Internet access services), hardware embedded software and system development.

The audited net assets of Powerleader Software, based on PRC accounting standards, was RMB100,078,593.96 as at 31 December 2015.

The following is the financial information of Powerleader Software for the years ended 31 December 2014 (audited) and 31 December 2015 (audited) respectively, which were prepared in accordance with the applicable accounting standards in the PRC:

| | For the year ended 31 December 2015 (audited) | For the year ended 31 December 2014 (audited) |
|----------------------------|--|--|
| Net profit before taxation | RMB18,370,107.57 | RMB25,355,244.54 |
| Net profits after taxation | RMB15,452,980.21 | RMB23,612,764.79 |

8. INFORMATION ON THE GROUP AND TAIJI COMPUTER

The Group

The principal business of the Group is the provision of cloud computing products and related solutions and services, which mainly includes (i) Cloud Infrastructure as a Service — comprising provision of equipment such as cloud servers and cloud storage and their related solutions (such as research and development and production of differentiated cloud equipment, overall solutions design of cloud infrastructure in relation to systems integration in cloud projects and its implementation, after sales and technical support services) under the Company’s own brand name “宝德”; (ii) Cloud Module as a Service — comprising research and development, design, manufacturing and sale of cloud computing equipment related components under the Company’s own brand name “宝德”, agency distribution of key components of cloud computing equipment and provision of related value added services (such as components combination solution design (i.e. providing optimised component options when clients select key components of cloud computing equipment) and compatibility test); and (iii) Software as a Service and Platform as a Service — comprising development of cloud computing software and platforms and provision of related services (such as system maintenance and software update services).

Taiji Computer

Taiji Computer is principally engaged in IT services integration, which includes (i) industry solutions and services; (ii) IT consulting; and (iii) IT products value-added services. Industry solutions and services refer to the range of services provided to industrial customers, such as government, public utilities, finance and energy. The core of such services focuses on software development for industry application, covering IT infrastructure, system integration and system operation and maintenance.

IT consulting refers to professional services involved in IT operating model design, program and project management, infrastructure construction, outsourcing management, IT monitoring services, system assessment, etc.

IT products value-added services refer to the value-added services provided for sales and development, system maintenance and functional enhancements of IT products, including enterprise systems built on software platforms, servers and data storage and management.

The audited net assets of the Taiji Computer Group, based on PRC accounting standards, was RMB1,872,634,183.17 as at 31 December 2015.

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The following is the financial information of the Taiji Computer Group for the years ended 31 December 2014 (audited) and 31 December 2015 (audited) respectively, which were prepared in accordance with the applicable accounting standards in the PRC:

| | For the year ended 31 December 2015 (audited) | For the year ended 31 December 2014 (audited) |
|-----------------------------|--|--|
| Net profits before taxation | RMB238,767,762.03 | RMB218,338,006.58 |
| Net profits after taxation | RMB201,177,536.87 | RMB198,190,532.27 |

9. FINANCIAL AND TRADING PROSPECTS

The Group has put forward a clear strategic positioning as “China’s leading cloud computing solutions provider with proprietary innovation capability”. It mainly carries on business in server, agency distribution, internet data centre and cloud services.

After the Completion, the Company and PC Research Institute will have respectively sold the Company Sale Interest and the PCR Sale Interest, which together represent the entire equity interest of Powerleader Computing. The consideration for the Disposal will be satisfied by Taiji Computer as to RMB249,900,000 by cash and as to RMB1,416,100,000 by issuing Taiji Computer Shares. Upon Completion, it is expected that the Company will receive RMB249,900,000 in cash from Taiji Computer and no longer hold any equity interest in Powerleader Computing. Without taking into account any Taiji Computer Shares which Taiji Computer may issue or repurchase before Completion, the Group will hold approximately 8.64% of the issued share capital of Taiji Computer as enlarged by the issue and allotment of the Total Consideration Shares. In 2016, the Company will increase its working capital and enjoy the investment benefits obtained from Taiji Computer. Besides, it is expected that the manpower of the Group will reduce correspondingly after the Completion, which will enable the Group to manage its labour costs.

In 2016, under the implementation of the state cloud computing related policy and the increase in cloud computing needs, the Group will seize the development opportunity to realize the rapid and healthy development of each of its businesses. In the MaaS Business, the Group will continue to build upon its existing business and strengthen its sales team by continuous in-depth development of its marketing service model and to implement business transformation by improving its service system. The Company will also provide clients with agency distribution of components for cloud computing related equipment and related value-added services. As for the internet data centre business, following the official operation of the Centre for Cloud Computing and Data (Shenzhen-Guanlan) and Guangzhou accelerator cloud computing data centre* (廣州加速器雲計算數據中心), apart from the provision of a series of basic and value-added services such as daily maintenance, event management, system optimization and commission maintenance services, the Group specifically provides customized modification services for computer room, electricity, non-standard computer cabinets and others according to special customer requirements. Besides, the Group relies on its proprietary research and development foundation to

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strengthen its related value-added services, such as industry cloud computing, high performance cloud computing and mega data analysis, in order to enhance the influence of the brand of Powerleader.

10. WAIVERS FROM STRICT COMPLIANCE WITH RULES 19.69(4)(a)(i) AND 19.68(2)(a)(i) OF THE GEM LISTING RULES

Background of the waivers

As set out in this Letter from the Board, the Disposal, the Acquisition and the Buy-back Option together constituted very substantial disposal and very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules. The Company is thus required to include (a) an accountants' report on Taiji Computer prepared in accordance with Chapter 7 of the GEM Listing Rules pursuant to Rule 19.69(4)(a)(i) of the GEM Listing Rules for the Acquisition; and (b) the financial information of Taiji Computer required under GEM Listing Rules 19.68(2)(a) for the disposal under the Buy-back Option. However, the Company considers it impractical and unduly burden some to include an accountants' report on Taiji Computer and financial information on Taiji Computer reviewed by the auditors of the Company in this circular, and applied to the Stock Exchange for waivers from strict compliance with (i) Rule 19.69(4)(a)(i) of the GEM Listing Rules to include an accountants' report on Taiji Computer in respect of Acquisition; and (ii) Rule 19.68(2)(a)(i) of the GEM Listing Rules to include the financial information on Taiji Computer in respect of the disposal under the Buy-back Option in this circular.

Reasons for the waiver application

In respect of Rule 19.69(4)(a)(i) of the GEM Listing Rules, the Company sought the waiver based on, among other things, the following:

- (i) Taiji Computer has been listed on the Shenzhen Stock Exchange since March 2010. The quarterly, interim and audited annual financial statements of Taiji Computer Group are published on a regular basis and disclosed on the website of the Shenzhen Stock Exchange and on the website www.cninfo.com.cn (巨潮信息網). The financial statements of Taiji Computer Group are thus already publicly made available for its shareholders and the public to review and assess its activities and performance;
- (ii) Taiji Computer and the Company are both companies established under the laws of the PRC, and the audited financial statements of Taiji Computer Group and those of the Company are prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC. Therefore, the accounting policies adopted in the preparation of the accountants' report on Taiji Computer are materially consistent with those of the Company. Further, the auditors of Taiji Computer issued unqualified opinions on the 2013, 2014 and 2015 audited financial statements of Taiji Computer Group;

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- (iii) the Acquisition will not result in the Group obtaining control of Taiji Computer, or the financial results of Taiji Computer being consolidated into the accounts of the Group. The Total Consideration Shares will be in the nature of an investment in listed securities of the Group and will be recorded as long-term equity investment in the consolidated financial statements of the Group.

The Company has, instead of an accountants' report on Taiji Computer, included the published audited financial statements of Taiji Computer Group for each of the three financial years ended 31 December 2013, 2014 and 2015 (plus certain information required for an accountant's report which is not disclosed in those audited financial statements) in Appendix III to this circular.

In respect of Rule 19.68(2)(a)(i) of the GEM Listing Rules, the Company sought the waiver based on the following:

- (i) the Acquisition (under which the Group will come to hold only a minority shareholding in Taiji Computer) will not result in Taiji Computer becoming a subsidiary of the Company, and accordingly the financial results of Taiji Computer will not be consolidated into the financial statement of the Company after the Completion and prior to the Group disposing of any Taiji Computer Shares under the Buy-back Option; and
- (ii) the audited financial statements of Taiji Computer for each of the financial years ended 31 December 2013, 2014 and 2015 which are included in Appendix III to this circular already covers more than what is required by Rule 19.68(2)(a)(i) of the GEM Listing Rules.

The Stock Exchange agreed to grant the above waivers subject to the Company making disclosure of the waiver (including details and reasons) by way of an announcement. Such announcement dated 11 May 2016 has been made by the Company in conjunction with the issue of this circular.

11. GEM LISTING RULES IMPLICATIONS

As (i) the relevant percentage ratios in respect of the Disposal exceed 75% and (ii) the relevant percentage ratios in respect of the Acquisition exceed 100%, the Disposal and the Acquisition constitute a very substantial disposal and a very substantial acquisition respectively of the Company under Chapter 19 of the GEM Listing Rules. Accordingly, the Disposal and the Acquisition are subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

As the exercise of the Buy-back Option will not be at the discretion of the Group, according to Rule 19.74(1) of the GEM Listing Rules, the grant of the Buy-back Option is classified as a transaction under Chapter 19 of the GEM Listing Rules as if the option had been exercised by reference to the applicable percentage ratios. Since the applicable percentage ratios for the grant of the Buy-back Option exceed 75%, the grant of Buy-back Option

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constitutes a very substantial disposal of the Company under Chapter 19 of the GEM Listing Rules and is subject to reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Under the GEM Listing Rules, any Shareholder with a material interest in the Disposal, the Acquisition or the grant of Buy-back Option and any close associates of such Shareholder shall abstain from voting on the relevant resolutions at the EGM and, to the best of the Directors' knowledge and belief on the Latest Practicable Date, no Shareholder would be required to abstain from voting on the relevant resolutions at the EGM pursuant to the GEM Listing Rules.

12. PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION

As at the Latest Practicable Date, Tianjin Chengbai held 15,000,000 Domestic Shares representing approximately 6.17% of the Total Share Capital.

Pursuant to the Share Transfer Agreement, Tianjin Chengbai has agreed to transfer all its existing Domestic Shares to Yali Anda. The completion of the Proposed Shares Transfer is subject to, amongst other things, the approval of the amendments to the Articles of Association in respect of the Proposed Shares Transfer by the Shareholders, and approval by the relevant regulatory authorities of the Share Transfer Agreement, the Proposed Shares Transfer and such amendments to the Articles of Association. Upon completion of the Proposed Shares Transfer, 15,000,000 Domestic Shares will be held by Yali Anda, representing approximately 6.17% of the Total Share Capital.

In connection with the Proposed Shares Transfer, the Board proposed that Article 18 of the Articles of Association be amended, and the Proposed Articles Amendment is subject to the approval by the Shareholders at the EGM of a special resolution and the approval by the relevant regulatory authority and will only become effective upon completion of the Proposed Shares Transfer. Set out below are the details of the Articles Amendment:

By deleting Article 18 of the existing Articles of Association in its entirety and substituting by the following:

“Article 18 After incorporation, the number of issued ordinary shares of the Company is presently 243,000,000 shares. The share structure of the Company is as follows:

1. shareholders of domestic shares hold 182,250,000 shares in aggregate, representing 75% of the issued share capital of the Company:
 - (1) Shenzhen Powerleader Investment Holding Company Limited (深圳市宝德投资控股有限公司) holds 102,184,500 shares, representing 42.05% of the issued share capital of the Company;
 - (2) 深圳市恒通達遠電子有限公司 (Shenzhen Hengtongdayuan Electronics Co., Ltd*) holds 23,958,000 shares, representing 9.86% of the issued share capital of the Company;

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- (3) 哈爾濱世紀龍翔科技開發有限公司 (Harbin Shijilongxiang Technology Development Co., Ltd*) holds 15,963,750 shares, representing 6.57% of the issued share capital of the Company;
 - (4) 烏魯木齊雅利安達股權投資有限公司 (Urumqi Yali Anda Investment Co., Ltd*) holds 15,000,000 shares, representing 6.17% of the issued share capital of the Company;
 - (5) 深圳市綠恒科技有限公司 (Shenzhen Eternal Green Technology Co., Ltd*) holds 7,893,750 shares, representing 3.25% of the issued share capital of the Company;
 - (6) 深圳市金博利通投資合夥企業(有限合夥) (Shenzhen Jinbolitong Investment Partnership (limited partnership)*) holds 7,250,000 shares, representing 2.98% of the issued share capital of the Company;
 - (7) 深圳市志正立達投資合夥企業(有限合夥) (Shenzhen Zhizhenglida Investment Partnership (limited partnership)*) holds 5,000,000 shares, representing 2.06% of the issued share capital of the Company;
 - (8) 深圳市嘉創聯合投資合夥企業(有限合夥) (Shenzhen Jiachuang Joint Investment Partnership (limited partnership)*) holds 5,000,000 shares, representing 2.06% of the issued share capital of the Company;
2. shareholders of overseas listed shares hold 60,750,000 shares in aggregate, representing 25% of the issued share capital of the Company.”

In general, the Proposed Articles Amendment is to reflect the changes in the holding structure of the Domestic Shares upon the completion of the Proposed Shares Transfer. Should there be any discrepancies between the Chinese version and English version of the Proposed Articles Amendment, the Chinese version shall prevail.

13. EGM AND ACTION TO BE TAKEN

The EGM will be held at 4th Floor, Research and Development Building, Powerleader Technology Research and Production Base, Guanlan Hi-Tech Industrial Park, Bao'an District, Shenzhen, the PRC on Tuesday, 31 May 2016 at 3:00 p.m.. At the EGM, resolutions will be proposed to the Shareholders to consider, and if thought fit, to approve each of the Agreement, the Asset Acquisition Agreement, the Profit Guarantee Compensation Agreement and the transactions contemplated thereunder and the Proposed Articles Amendment.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, the vote of the Shareholders at the EGM shall be taken by poll. Accordingly, the resolutions put to vote at the EGM will be taken by way of poll. The Company will announce the results of the poll in the manner prescribed under Rule 17.47(5) of the GEM Listing Rules.

The form of proxy for use for the EGM was despatched by the Company on 14 March 2016, and the revised forms of proxy for use for the EGM were despatched by the Company on 9 April 2016 and 5 May 2016 (forms of proxy deposited by Shareholders prior to the issue of

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the revised forms of proxy are still valid for the purpose of the EGM). Whenever or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (in case of holders of H Shares) or the registered office of the Company at Room 43A, 43rd Floor, Block C, Electronics Science & Technology Building, Shennan Road Central, Futian District, Shenzhen, the PRC (in case of holders of Domestic Shares), no later than 24 hours before the time fixed for holding the relevant meeting or at any adjournment thereof. Completion and delivery of the proxy will not prevent you from attending, and voting at, the meeting or any adjournment thereof if you so wish.

14. RECOMMENDATIONS

Having considered the reasons set out herein, the Directors are of the opinion that the terms of the Agreement, the Asset Acquisition Agreement and the Profit Guarantee Compensation Agreement are on normal commercial terms, fair and reasonable and that the Disposal, the Acquisition and the Buy-back Option are in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the relevant resolutions as set out in the notice of EGM to approve the Agreement, the Asset Acquisition Agreement, the Profit Guarantee Compensation Agreement and the transactions contemplated thereunder and the Proposed Articles Amendment.

15. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Powerleader Science & Technology Group Limited
Zhang Yunxia
Chairman

FINANCIAL INFORMATION

The audited consolidated financial statements of the Group prepared in accordance with “Accounting Standards for Business Enterprises — Basic Standard” and 40 Specific Standards issued by the Ministry of Finance of the PRC (Including 5 new or revised standards issued January and February 2014), and Application Guidance for Accounting Standards for Business Enterprises, Interpretations to Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (collectively referred to as “ASBE”), “Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting (2010 revised)” issued by CSRC, Hong Kong Companies Ordinance and the GEM Listing Rules for the year ended 31 December 2013, together with the accompanying notes (the “**2013 Financial Statements**”), are included on pages 27 to 200 in the annual report for the year of 2013 of the Company (the “**2013 Annual Report**”) published on 28 March 2014.

The audited consolidated financial statements of the Group prepared in accordance with ASBE, “Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting (revised 2014)” of CSRC, the Rules Governing the Listing of Securities of Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance for the year ended 31 December 2014, together with the accompanying notes (the “**2014 Financial Statements**”), are included on pages 30 to 194 in the annual report for the year of 2014 of the Company (the “**2014 Annual Report**”) published on 29 April 2015.

The audited consolidated financial statements of the Group prepared in accordance with ASBE, “Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting (revised 2014)” of CSRC, the Rules Governing the Listing of Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance for the year ended 31 December 2015, together with the accompanying notes (the “**2015 Financial Statements**”), are included on pages 31 to 196 in the annual report for the year of 2015 of the Company (the “**2015 Annual Report**”) published on 29 March 2016.

Each of the 2013 Financial Statements, the 2014 Financial Statements and the 2015 Financial Statements (but not any other part of the 2013 Annual Report, the 2014 Annual Report and the 2015 Annual Report respectively) is incorporated by reference into this circular and forms part of this circular. The 2013 Annual Report, the 2014 Annual Report and the 2015 Annual Report were published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and of the Company (www.powerleader.com.cn).

STATEMENT OF INDEBTEDNESS

The following table sets forth the indebtedness of the Group as of 31 March 2016:

| | As at 31 March 2016 <i>(in RMB)</i> |
|--------------------------------------|---|
| Non current | 186,055,375.30 |
| Finance lease payable | <u>44,055,375.30</u> |
| Long term loan | 142,000,000.00 |
| Less: loans due within one year | <u>36,000,000.00</u> |
| Sub-total | <u>106,000,000.00</u> |
| Current | 1,278,670,705.22 |
| Short term loans due within one year | 1,058,670,705.22 |
| Notes payable | <u>220,000,000.00</u> |
| Total | <u><u>1,464,726,080.52</u></u> |

The details of such bank loans, other secured and guaranteed loans or unsecured loans are as follows:

| | As at 31 March 2016 <i>(in RMB)</i> |
|------------------|---|
| Secured loans | 336,030,912.81 |
| Guaranteed loans | 1,084,639,792.41 |
| Unsecured loans | <u>—</u> |
| Total | <u><u>1,420,670,705.22</u></u> |

As at 31 March 2016, the Group had a total of approximately RMB1,530,100,000 of bank credits, of which RMB219,429,300 had not been utilised.

Save as disclosed above, as at 31 March 2016, the Group had no other debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, or any obligations under finance leases or hire purchase contracts or any guarantee or other material contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry, after taking into account the Group's internal resources, the effect of the Disposal, the Acquisition, the grant of Buy-back Option and the transactions contemplated thereunder and existing cash and bank balances, the Group will have sufficient working capital for its present requirements for a period of at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS

Set out below are the management discussion and analysis of the Group for each of the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013.

A. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

I. Liquidity and financial resources

As at 31 December 2013, the cash and cash equivalents of the Group amounted to RMB370,444,415.57, which included restricted cash and cash equivalents of RMB38,525,202.04 being the guarantee deposits in other cash monetary funds pledged to banks for opening letters of credit and utilizing the letters of credit beyond the pre-approved limit.

As at 31 December 2014, the cash and cash equivalents of the Group amounted to RMB465,885,673.02, which included restricted cash and cash equivalents of RMB84,729,307.40 being the guarantee deposits in other cash monetary funds pledged to banks for opening letters of credit and utilizing the letters of credit beyond the pre-approved limit.

As at 31 December 2015, the cash and cash equivalents of the Group amounted to RMB486,466,976.00, which included restricted cash monetary funds of RMB234,257,848.56, being guarantee deposits in other cash monetary funds pledged to banks for opening letters of credit and security deposit for bank acceptance bills.

II. Prospects for new business

Under the implementation of the state cloud computing related policy and the continuous increase in cloud computing needs in the PRC, the Group will seize the favourable development opportunities to realize the healthy and rapid development of each of its businesses with prospects as follows:

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

Following the touchdown of cloud computing and mega data, the penetration of the next generation information technologies, such as virtualization and cloud computing, has been enhanced. More industrial users have adopted solutions including (among others) public

cloud and private cloud to modify the constituents of their original solutions, and this trend will become a long term driver for the growth of cloud server and cloud storage related equipment and their solutions. The Group will leverage on its strong proprietary research and development capacity to achieve innovative breakthrough, improve its operation and management capacity continuously to keep abreast of the market and focus on the industry to bring services to its customers with improved quality.

For research and development, the Group will continue to increase its investment in research and development and work on cloud computing products and solutions. It will work closely with Intel and Seagate as well as various research institutions and associations of the industry to extend its contribution to promote a more optimized and comprehensive information industry in China. In respect of sales management, the Group will leverage on its advantages in its healthy sales mechanism to optimize its human resources structure on one hand, and on the other hand, continue to expand into emerging markets and seek for great leap-forward development. In respect of brand building and marketing, the Company will continue to plan, host, co-host and participate in marketing events of various industries by means of media promotions, marketing events and self-media. The Company will focus its promotion efforts on the solutions and enhance the sphere of influence of the Powerleader brand.

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

The Group will continue to build upon its existing business and through continuous in-depth development of its marketing service model to implement business transformation by improving its service system. At the same time, the Company will proactively improve the internal supply logistics, optimize its structural management and work closely with more leading enterprises in different sectors and industries, so as to achieve cooperation of the competent players and resources integration and contribute to the fostering and deepening of cloud computing in China.

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

In order to actively response to the call from the government, the Group will dedicate its efforts in cloud computing development to implement proprietary innovation and industrialization of cloud computing technologies. In respect of research and development of cloud computing related software and platforms, the Group will increase its investment in the integration of related products along with the cloud server product resources, which will form its integrated software-hardware product strategy. The Group will provide customers with more comprehensive value-added services through the private cloud platform management technology, while enhancing the product value of the servers and increasing the sales of server products.

III. Significant investment held and their performance

Major subsidiaries and invested companies for the year ended 2013

Major subsidiaries

1. Powerleader Computing

Powerleader Computing was established on 8 October 2003 with initial registered capital of RMB10 million. The Company held 94.26% of the equity interests of Powerleader Computing, which held the business licence No. 440301103172983 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Dong Weiping. In 2010, Powerleader Computing increased its registered capital to RMB38 million by converting the undistributed profits to share capital and taking up investment of RMB2 million from a new shareholder. On 2 April 2011, the Company acquired 5.74% Powerleader Computing's interest from latter's minority shareholders at a total consideration of RMB2.8 million. As at 31 December 2013, the Company owned 100% of Powerleader Computing's shares.

Business scope: Production (conducted by branches), development and sales of computer hardwares, softwares and ancillary equipment, computer parts, electronics, electrical appliances, communication products; integrated circuit for computing systems (excluding restricted projects and franchised, controlled or monopolised merchandise); Import and export of goods and technologies.

2. Shenzhen Baoteng Internet Technology Limited* (深圳市寶騰互聯科技有限公司) ("Baoteng Internet")

Baoteng Internet was established in 2003 with initial registered capital of RMB1 million. The Company held 75% of the equity interests of Baoteng Internet, which held the business licence No. 440306103599524 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Qiu Wengui. On 4 April 2006, the Company and Shenzhen Powerleader Investment Holding Company Limited* (深圳市寶德投資控股有限公司) together contributed additional capital of RMB9 million to Baoteng Internet. As a result, the registered capital of Baoteng Internet was increased to RMB10 million. On 2 April 2011, the Company acquired 25% shareholding from Baoteng Internet's minority shareholders at a consideration of RMB2 million. As at 31 December 2013, the Company owned 100% of Baoteng Internet's shares.

Business scope: Research and development as well as sales and purchase of information technological products, communication technological products, electronic consumer products and hardwares and softwares of internet technological products.

3. Powerleader Software

Powerleader Software was established in 2008 with registered capital of RMB10 million. The Company held 99% of the equity interests of Powerleader Software, which held the business licence No. 440306103615979 issued by Shenzhen Commercial and Industrial

Administrative Bureau. The legal representative was Qiu Wengui. On 2 April 2011, the Company acquired 1% Powerleader Software's shareholding from latter's minority shareholder, Shenzhen Powerleader Investment Holding Company Limited, at a consideration of RMB0.3 million. As at 31 December 2013, the Company owned 100% of its shares.

Business scope: Development of computer hardwares and softwares, development of internet technological (excluding provision of internet services, hardware-in-software and system development).

4. Shenzhen Powerleader Communication Technology Limited* (深圳市宝德通讯技术有限公司) (“**Powerleader Communication**”)

Powerleader Communication was established in 2005 with registered capital of RMB1 million and held the business licence No. 440301103401448 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Qiu Wengui. As at 31 December 2013, the Company and Zhang Yunxia owned 90% and 10% of the equity interests of Powerleader Communication respectively.

Business scope: Development, production and sales of solid state disks, hard disk adapters, notebook computers, LCD televisions, communication equipment, computers, electronic peripherals.

5. Shenzhen Powerleader Property Development Limited* (深圳市宝德物业发展有限公司) (“**Powerleader Property**”)

Powerleader Property was established in 2007 with registered capital of RMB0.5 million and held the business licence No. 440301103052307 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Qiu Wengui. As at 31 December 2013, the Company and Shenzhen Powerleader Investment Holding Company Limited owned 99% and 1% of Powerleader Property's shares respectively.

Business scope: Property water and electricity installation, maintenance, property management (operating with qualification certificate); lease of self-owned properties, landscaping (operating with qualification certificate); domestic commercial and material supplies (excluding franchised, controlled or monopolised merchandise and restricted foreign investment projects).

6. Shenzhen Baotong Zhiyuan Technology Limited* (深圳市宝通志远科技有限公司) (“**Baotong Zhiyuan**”)

Baotong Zhiyuan was established in 2008 with initial registered capital of RMB1 million. The Company owned 99% of the equity interests of Baotong Zhiyuan, which held the business licence No. 440306103471649 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Li Ruijie. On 20 May 2009, the Company and Shenzhen Powerleader Investment Holding Company Limited injected capitals in proportion to their shareholdings to Baotong Zhiyuan and the registered capital of Baotong Zhiyuan was increased to RMB10 million. On 2 April 2011, the Company

acquired 1% shareholding of Baotong Zhiyuan from latter's minority shareholder, Shenzhen Powerleader Investment Holding Company Limited, at a consideration of RMB0.18 million. As at 31 December 2013, the Company owned 100% of its shares.

Business scope: Technological development and sales of computing softwares, hardwares, communication products, electronic instruments and provision of integrated system services; domestic commercial and material supplies, import and export of goods and technologies.

7. Shenzhen Baozhongyun Technology Services Limited* (深圳市寶中雲技術服務有限公司) (“**Baozhongyun**”)

Baozhongyun was established in 2011 and held the business licence No. 440306105660008 issued by Shenzhen Commercial and Industrial Administrative Bureau. Its registered capital was RMB10 million. The legal representative was Ma Zhumao. On 15 October 2013, it was deregistered.

8. PC Research Institute

PC Research Institute was established in 2011 and held the business licence No. 440306105730362 issued by Shenzhen Commercial and Industrial Administrative Bureau. Its registered capital was RMB10 million. The legal representative was Li Ruijie. As at 31 December 2013, the Company contributed RMB9 million to its capital and owned 90% of its shares, while Powerleader Computing contributed RMB1 million and owned 10% of its shares. The Company indirectly owned 100% of its shares.

Business scope: Technological development and sales of computer hardwares and softwares, research and development of communication and internet technologies and digital multimedia technologies (excluding internet access services), domestic trading. (Excluding projects which required prior approval before registration according to laws, administrative regulations and PRC state council requirements)

9. Nanjing Powerleader Cloud Computing Technology Limited* (南京寶德雲計算技術有限公司) (“**Nanjing Powerleader**”)

Nanjing Powerleader was established in 2011 and held the business licence No. 320114000068530. Its registered capital was RMB50 million. The legal representative was Liu Hongxin. As at 31 December 2013, the Company paid up RMB29.7 million to its capital and held 99% of its shares; while Shenzhen Powerleader Investment Holding Company Limited paid up RMB0.3 million to its capital, and held 1% of its shares.

Business scope: Research and development and manufacturing of cloud computing technologies and products; development, manufacturing and sales of computer hardwares and softwares and interface equipment, computer parts, internet equipment. Development of internet games. Import and export of commodities and technologies for its own business or as agent.

10. Powerleader Science & Technology (HK) Limited* (宝德科技(香港)有限公司) (“**Hong Kong Powerleader**”)

Hong Kong Powerleader was incorporated in 2003 with initial registered capital of US\$0.99 million. It was a wholly-owned subsidiary of the Company. In 2011, the Company contributed additional capital of US\$9 million. The registered capital of Hong Kong Powerleader was increased to US\$9.99 million accordingly. As at 31 December 2013, the Company owned 100% of its shares.

Business scope: Investment holding of computing server related products

11. Ex-Channel Group Limited* (宝通集團有限公司) (“**Ex-channel**”)

Ex-channel was incorporated in 2003 with registered capital of HK\$30 million. On 17 February 2011, Hong Kong Powerleader acquired 10% shareholding from each of the minority shareholders, Top Pioneer Limited and Dong Weiping, at a consideration of HK\$8.8 million each. As at 31 December 2013, the Company owned 100% of shares of Ex-channel through Hong Kong Powerleader.

Business scope: Sales of cloud computing equipment related parts, agency distribution for cloud computing core parts and provision of the relevant value-added services.

12. Powerleader Binhai Technology (Tianjin) Limited* (宝德濱海科技(天津)有限公司) (“**Binhai Powerleader**”)

Binhai Powerleader was established in 2007 and held the business licence No. 12000040002133 issued by Tianjin Commercial and Industrial Administrative Bureau. Its registered capital was US\$13 million. The legal representative was Li Ruijie. As at 31 December 2013, the Company indirectly owned 100% of its shares through Hong Kong Powerleader.

Business scope: Development, design, production and sales of computing network, electronics, communication equipment and their softwares and hardwares systems engineering; exhibition and training for relevant technologies, conference exhibition services, property management, and consultancy services for the aforesaid business scope.

Invested companies

1. Shenzhen Shenyue Joint Investment Co., Ltd* (深圳市深越聯合投資有限公司) (“**Shen-Viet Joint Investment**”)

Shen-Viet Joint Investment was engaged in purchasing land in Vietnam to construct a China Industrial Park in Vietnam. The Company invested RMB5 million in it in 2008, holding 5% of its shares and further invested RMB13 million in 2010. After the contribution, the shareholding of the Company in Shen-Viet Joint Investment became 18%. On 1 March 2013, the Company transferred its shareholding of 18% in Shen-Viet Joint Investment to controlling shareholder of the Company, Powerleader Investment Holding Company Limited, at a consideration of RMB20 million.

2. Shenzhen Zqgame Interactive Network Co., Limited* (深圳中青宝互动网络股份有限公司) (“**Zqgame**”)

Zqgame was formerly known as Shenzhen Powerleader Network Technology Limited. Its principal business was development and operation of online games. It was established jointly by the Company and the holding company of the Company, Shenzhen Powerleader Investment Holding Company Limited, in 2000. The Company owned 99% of its shareholding, while Shenzhen Powerleader Investment Holding Company Limited owned 1%. After a number of shareholding changes from 2007 to 2010, the shareholding of the Company in Zqgame was diluted from 20.4% to 15.3% after Zqgame was listed on A shares growth enterprise market in 2010. As the Company was entitled to appoint 2 out of the 8 directors in the board of Zqgame, the Company had significant influence over Zqgame. Accordingly, Zqgame was accounted for using equity method.

3. Beijing Haiyun Jiexun Technology Limited* (北京海云捷迅科技有限公司) (“**Beijing Haiyun Jiexun**”)

Beijing Haiyun Jiexun was established on 25 May 2010 in Beijing by Lin Zhiguo who invested RMB5 million. On 16 October 2013, the Company contributed RMB9 million, among which, RMB1,666,666.67 was applied to increase the registered capital of Beijing Haiyun Jiexun and its registered capital became RMB6,666,666.67. The shareholding of Zhang Zhengyu, Li Hua and the Company were 49.5%, 25.5% and 25% respectively. The legal representative was Li Hua. The Company was entitled to appoint 1 out of 3 directors in its board. It was accounted for using equity method.

4. Sichuan Baoteng Internet Technology Limited* (四川宝腾互联科技有限公司) (“**Sichuan Baoteng**”)

Sichuan Baoteng was a limited liability company invested and established by Sichuan Mingguan Network Technology Limited (“**Sichuan Mingguan**”). It obtained its business registration licence on 30 September 2013. The registered capital at the time of establishment was (paid-up capital) RMB1 million. On 30 October 2013, the Company entered into capital increment agreement with Sichuan Mingguan that the Company would subscribe for the newly increased capital in Sichuan Baoteng of RMB0.9608 million at a consideration of RMB42 million. After the increment of capital, the registered capital of Sichuan Baoteng increased to RMB1.9608 million. Sichuan Mingguan and the Company held 51% and 49% of the equity interests of Sichuan Baoteng respectively. The board of directors in Sichuan Baoteng had 3 directors, 2 of them were appointed by the Company. The Company had 66.67% voting rights in the board of directors. However, the significant decisions of Sichuan Baoteng were required to be agreed by all directors and shareholders, therefore, it was accounted for using equity method. As at 31 December 2013, the investment paid by the Company was RMB10 million.

*Major subsidiaries and invested companies for the year ended 2014**Major subsidiaries*

1. Powerleader Computing

Powerleader Computing was established on 8 October 2003 with initial registered capital of RMB10 million. The Company held 94.26% of the equity interests of Powerleader Computing, which held the business licence No. 440301103172983 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Dong Weiping. In 2010, Powerleader Computing increased its registered capital to RMB38 million by converting the undistributed profits to share capital and taking up investment of RMB2 million from a new shareholder. On 2 April 2011, the Company acquired 5.74% Powerleader Computing's interest from latter's minority shareholders at a total consideration of RMB2.8 million. As at 31 December 2014, the Company owned 100% of Powerleader Computing's shares.

Business scope: Production (conducted by branches), development and sales of computer hardwares, softwares and ancillary equipment, computer parts, electronics, electrical appliances, communication products; integrated circuit for computing systems (excluding restricted projects and franchised, controlled or monopolised merchandise); Import and export of goods and technologies.

2. Baoteng Internet

Baoteng Internet was established in 2003 with initial registered capital of RMB1 million. The Company held 75% of the equity interests of Baoteng Internet, which held the business licence No. 440306103599524 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. On 4 April 2006, the Company and Shenzhen Powerleader Investment Holding Company Limited together contributed additional capital of RMB9 million to Baoteng Internet. As a result, the registered capital of Baoteng Internet was increased to RMB10 million. On 2 April 2011, the Company acquired 25% shareholding from Baoteng Internet's minority shareholders at a consideration of RMB2 million. As at 31 December 2014, the Company owned 100% of Baoteng Internet's shares.

Business scope: Research and development as well as sales and purchase of information technological products, communication technological products, electronic consumer products and hardwares and softwares of internet technological products.

3. Powerleader Software

Powerleader Software was established in 2008 with registered capital of RMB10 million. The Company held 99% of the equity interests of Powerleader Software, which held the business licence No. 440306103615979 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. On 2 April 2011, the Company acquired 1% Powerleader Software's shareholding from latter's minority shareholder, Shenzhen Powerleader Investment Holding Company Limited, at a consideration of RMB0.3 million. As at 31 December 2014, the Company owned 100% of its shares.

Business scope: Development of computer hardwares and softwares, development of internet technological (excluding provision of internet services), hardware-in-software and system development.

4. Powerleader Property

Powerleader Property was established in 2007 with registered capital of RMB0.5 million and held the business licence No. 440301103052307 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. As at 31 December 2014, the Company and Shenzhen Powerleader Investment Holding Company Limited owned 99% and 1% of Powerleader Property's shares respectively.

Business scope: Property water and electricity installation, maintenance, property management (operating with qualification certificate); lease of self-owned properties, landscaping (operating with qualification certificate); domestic commercial and material supplies (excluding franchised, controlled or monopolised merchandise and restricted foreign investment projects).

5. Baotong Zhiyuan

Baotong Zhiyuan was established in 2008 with initial registered capital of RMB1 million. The Company owned 99% of the equity interests of Baotong Zhiyuan, which held the business licence No. 440306103471649 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. On 20 May 2009, the Company and Powerleader Investment Holding Company Limited injected capitals in proportion to their shareholdings to Baotong Zhiyuan and the registered capital of Baotong Zhiyuan was increased to RMB10 million. On 2 April 2011, the Company acquired 1% shareholding of Baotong Zhiyuan from latter's minority shareholder, Shenzhen Powerleader Investment Holding Company Limited, at a consideration of RMB0.18 million. As at 31 December 2014, the Company owned 100% of its shares.

Business scope: Technological development and sales of computing softwares, hardwares, communication products, electronic instruments and provision of integrated system services; domestic commercial and material supplies, import and export of goods and technologies; meeting planning; marketing planning; supply logistics management.

6. PC Research Institute

PC Research Institute was established in 2011 and held the business licence No. 440306105730362 issued by Shenzhen Commercial and Industrial Administrative Bureau. Its registered capital was RMB10 million. The legal representative was Ma Zhumao. As at 31 December 2014, the Company contributed RMB9 million to its capital and owned 90% of its shares, while Powerleader Computing contributed RMB1 million and owned 10% of its shares. The Company indirectly owned 100% of its shares.

Business scope: Technological development and sales of computer hardwares and softwares, research and development of communication and internet technologies and digital multimedia technologies (excluding internet access services), domestic trading (Excluding projects which required prior approval before registration according to laws, administrative regulations and PRC state council requirements).

7. Guangzhou Baoyun Information Technology Co., Ltd*. (廣州寶雲信息科技有限公司) (“Guangzhou Baoyun”)

Guangzhou Baoyun was established on 30 December 2013 with a registered capital of RMB10 million. It held the business licence No. 440108000081509 issued by Guangzhou Administration for Industry & Commerce. 100% of its capital was contributed by the Company and the legal representative was Ma Zhumao.

Business scope: Development of software; information system integration services; information technology consulting services; data processing and storage services.

8. Hong Kong Powerleader

Hong Kong Powerleader was incorporated in 2003 with initial registered capital of US\$0.99 million. It was a wholly-owned subsidiary of the Company. In 2011, the Company contributed additional capital of US\$9 million. The registered capital of Hong Kong Powerleader was increased to US\$9.99 million accordingly. As at 31 December 2014, the Company owned 100% of its shares.

Business scope: Investment holding of computing server related products.

9. Ex-channel

Ex-channel was incorporated in 2003 with registered capital of HK\$30 million. On 17 February 2011, Hong Kong Powerleader acquired 10% shareholding from each of the minority shareholders, Top Pioneer Limited and Dong Weiping, at a consideration of HK\$8.8 million each. As at 31 December 2014, the Company owned 100% of shares of Ex-channel through Hong Kong Powerleader.

Business scope: Sales of cloud computing equipment related parts, agency distribution for cloud computing core parts and provision of the relevant value-added services.

10. Binhai Powerleader

Binhai Powerleader was established in 2007 and held the business licence No. 12000040002133 issued by Tianjin Commercial and Industrial Administrative Bureau. Its registered capital was US\$13 million. The legal representative was Li Ruijie. As at 31 December 2014, the Company indirectly owned 100% of its shares through Hong Kong Powerleader.

Business scope: Development, design, production and sales of computing network, electronics, communication equipment and their softwares and hardwares systems engineering; exhibition and training for relevant technologies, conference exhibition services, property management, and consultancy services for the aforesaid business scope.

Invested companies

1. Zqgame

Zqgame was formerly known as Shenzhen Powerleader Network Technology Limited. Its principal business was development and operation of online games. It was established jointly by the Company and the holding company of the Company, Shenzhen Powerleader Investment Holding Company Limited, in 2000. The Company owned 99% of its shareholding, while Shenzhen Powerleader Investment Holding Company Limited owned 1%. After a number of shareholding changes from 2007 to 2010, the shareholding of the Company in Zqgame was diluted from 20.4% to 15.3% after Zqgame was listed on A shares growth enterprise market in 2010. As the Company was entitled to appoint 2 out of the 8 directors in the board of Zqgame, the Company had significant influence over Zqgame. Accordingly, Zqgame was accounted for using equity method.

2. Beijing Haiyun Jiexun

Beijing Haiyun Jiexun was established on 25 May 2010 in Beijing by Lin Zhiguo who invested RMB5 million. According to the capital increment agreement executed on 18 October 2013, the Company agreed to contribute a total sum of RMB15 million in three tranches. As at 31 December 2014, the Company had contributed RMB15 million. The shareholding of Zhang Zhengyu, Li Hua and the Company were 49.5%, 25.5% and 25% respectively. The legal representative was Li Hua. The Company was entitled to appoint 1 out of 3 directors in its board. It was accounted for using equity method.

3. Sichuan Baoteng

Sichuan Baoteng was a limited liability company invested and established by Sichuan Mingguan. It obtained its business registration licence on 30 September 2013. The registered share capital at the time of establishment (paid-up capital) was RMB1 million. On 30 October 2013, the Company entered into capital increment agreement with Sichuan Mingguan that the Company would subscribe for the newly increased capital in Sichuan Baoteng of RMB0.9608 million at a consideration of RMB42 million. After the increment of capital, the registered capital of Sichuan Baoteng increased to RMB1.9608 million. Sichuan Mingguan and the Company held 51% and 49% of the equity interests of Sichuan

Baoteng respectively. The board of directors in Sichuan Baoteng had 3 directors, 2 of them were appointed by the Company. The Company had 66.67% voting rights in the board of directors. However, the significant decisions of Sichuan Baoteng were required to be agreed by all directors and shareholders, therefore, it was accounted for using equity method. As at 31 December 2014, the actual investment made by the Company was RMB32 million.

Major subsidiaries and invested companies for the year ended 2015

Major subsidiaries

1. Powerleader Computing

Powerleader Computing was established on 8 October 2003 with initial registered capital of RMB10 million. The Company held 94.26% of the equity interests of Powerleader Computing, which held the business licence No. 440301103172983 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Dong Weiping. In 2010, Powerleader Computing increased its registered capital to RMB38 million by converting the undistributed profits to share capital and taking up investment of RMB2 million from a new shareholder. On 2 April 2011, the Company acquired 5.74% Powerleader Computing's interest from latter's minority shareholders at a consideration of RMB2.8 million. On 24 July 2015, the Company disposed 10% Powerleader Computing's interest to PC Research Institute at a consideration of RMB4.5 million. As at 31 December 2015, the Company indirectly owned 100% of Powerleader Computing's equity interests.

Business scope: Production (conducted by branches), development and sales of computer hardwares, softwares and ancillary equipment, computer parts, electronics, electrical appliances, communication products; integrated circuit for computing systems (excluding restricted projects and franchised, controlled or monopolised merchandise); import and export of goods and technologies.

2. Baoteng Internet

Baoteng Internet was established in 2003 with initial registered capital of RMB1 million. The Company held 75% of the equity interests of Baoteng Internet, which held the business licence No. 440306103599524 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. On 4 April 2006, the Company and Shenzhen Powerleader Investment Holding Company Limited together contributed additional capital of RMB9 million to Baoteng Internet. As a result, the registered capital of Baoteng Internet was increased to RMB10 million. On 2 April 2011, the Company acquired 25% shareholding from Baoteng Internet's minority shareholders at a consideration of RMB2 million. As at 31 December 2015, the Company owned 100% of Baoteng Internet's shares.

Business scope: Research and development as well as sales and purchase of information technological products, communication technological products, electronic consumer products and hardwares and softwares of internet technological products.

3. Powerleader Software

Powerleader Software was established in 2008 with registered capital of RMB10 million. The Company held 99% of the equity interests of Powerleader Software, which held the business licence No. 440306103615979 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. On 2 April 2011, the Company acquired 1% Powerleader Software's shareholding from latter's minority shareholder, Shenzhen Powerleader Investment Holding Company Limited, at a consideration of RMB0.3 million. As at 23 July 2015, the Company disposed 100% equity interests of Powerleader Software to Powerleader Computing at a consideration of RMB85 million. As at 31 December 2015, the Company indirectly owned 100% of its shares.

Business scope: Development of computer hardwares and softwares, development of internet technological (excluding provision of internet services), hardware-in-software and system development.

4. Powerleader Property

Powerleader Property was established in 2007 with registered capital of RMB0.5 million and held the business licence No. 440301103052307 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. As at 31 December 2015, the Company and Shenzhen Powerleader Investment Holding Company Limited owned 99% and 1% of Powerleader Property's shares respectively.

Business scope: Property water and electricity installation, maintenance, property management (operating with qualification certificate); lease of self-owned properties, landscaping (operating with qualification certificate); domestic commercial and material supplies (excluding franchised, controlled or monopolised merchandise and restricted foreign investment projects).

5. Baotong Zhiyuan

Baotong Zhiyuan was established in 2008 with initial registered capital of RMB1 million. The Company owned 99% of the equity interests of Baotong Zhiyuan, which held the business licence No. 440306103471649 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative was Ma Zhumao. On 20 May 2009, the Company and Shenzhen Powerleader Investment Holding Company Limited injected capitals in proportion to their shareholdings to Baotong Zhiyuan and the registered capital of Baotong Zhiyuan was increased to RMB10 million. On 2 April 2011, the Company acquired 1% shareholding of Baotong Zhiyuan from latter's minority shareholder, Shenzhen Powerleader Investment Holding Company Limited, at a consideration of RMB0.18 million. As at 31 December 2015, the Company owned 100% equity interest of Baotong Zhiyuan.

Business scope: Technological development and sales of computing softwares, hardwares, communication products, electronic instruments and provision of integrated system services; domestic commercial and material supplies, import and export of goods and technologies; meeting planning; marketing planning; supply logistics management.

6. PC Research Institute

PC Research Institute was established in 2011 and held the business licence No. 440306105730362 issued by Shenzhen Commercial and Industrial Administrative Bureau. Its registered capital was RMB10 million. The legal representative was Ma Zhumao. As at 31 December 2014, the Company contributed RMB9 million to its capital and owned 90% of its shares, while Powerleader Computing contributed RMB1 million and owned 10% of its shares. The Company indirectly owned 100% of its shares. On 25 June 2015, Powerleader Computing disposed 10% PC Research Institute's equity interest to the Company at a consideration of RMB200,000. As at 31 December 2015, the Company owned 100% equity interests of PC Research Institute.

Business scope: Technological development and sales of computer hardwares and softwares, research and development of communication and internet technologies and digital multimedia technologies (excluding internet services), domestic trading. (Excluding projects which required prior approval before registration according to laws, administrative regulations and PRC state council requirements).

7. Guangzhou Baoyun

Guangzhou Baoyun was established on 30 December 2013 with a registered capital of RMB10 million. It held the business licence no. 440108000081509 issued by Guangzhou Administration for Industry & Commerce. 100% of its capital was contributed by the Company and the legal representative was Ma Zhumao.

Business scope: Development of software; information system integration services; information technology consulting services; data processing and storage services.

8. Hong Kong Powerleader

Hong Kong Powerleader was incorporated in 2003 with initial registered capital of US\$0.99 million. It was a wholly-owned subsidiary of the Company. In 2011, the Company contributed additional capital of US\$9 million. The registered capital of Hong Kong Powerleader was increased to US\$9.99 million accordingly. As at 31 December 2015, the Company owned 100% of its shares.

Business scope: Investment holding of computing server related products.

9. Ex-channel

Ex-channel was incorporated in 2003 with registered capital of HK\$30 million. On 17 February 2011, Hong Kong Powerleader acquired 10% shareholding from each of the minority shareholders, Top Pioneer Limited and Dong Weiping, at a consideration of HK\$8.8 million each. As at 31 December 2015, the Company owned 100% of shares of Ex-channel through Hong Kong Powerleader.

Business scope: Sales of cloud computing equipment related parts, agency distribution for cloud computing core parts and provision of the relevant value-added services.

10. Binhai Powerleader

Binhai Powerleader was established in 2007 and held the business licence No. 12000040002133 issued by Tianjin Commercial and Industrial Administrative Bureau. Its registered capital was US\$13 million. The legal representative was Li Ruijie. As at 31 December 2015, the Company indirectly owned 100% of its shares through Hong Kong Powerleader.

Business scope: Development, design, production and sales of computing network, electronics, communication equipment and their softwares and hardwares systems engineering; exhibition and training for relevant technologies, conference exhibition services, property management, and consultancy services for the aforesaid business scope.

11. Powerleader Computer System (Hong Kong)

Powerleader Computer System (Hong Kong) was established on 29 July 2015, its registered capital was US\$1 million, it is the wholly-owned subsidiary of Powerleader Computing. As at 31 December 2015, the Company indirectly owned 100% of its shares through Powerleader Computing.

Business scope: Research and development, sales of computer hardwares, softwares and ancillary equipment, computer parts, electronics, electrical appliances, communication products; integrated circuit for computing systems; Import and export of goods and technologies.

Invested companies

1. Zqgame

Zqgame was formerly known as Shenzhen Powerleader Network Technology Limited. Its principal business was development and operation of online games. It was established jointly by the Company and the holding company of the Company, Shenzhen Powerleader Investment Holding Company Limited, in 2000. The Company owned 99% of its shareholding, while Shenzhen Powerleader Investment Holding Company Limited owned 1%. After a number of shareholding changes from 2007 to 2010, the shareholding of the Company in Zqgame was diluted from 20.40% to 15.30% after Zqgame was listed on A shares growth enterprise market in 2010. In 2015, targets of Zqgame's stock incentive

compensation exercised 1,038,600 rights in total and the shareholding of the Company in Zqgame was diluted from 15.30% to 15.24%. As the Company was entitled to appoint 2 out of the 8 directors in the board of Zqgame, the Company had significant influence over Zqgame. Accordingly, Zqgame was accounted for using equity method.

2. Beijing Haiyun Jiexun

Beijing Haiyun Jiexun was established on 25 May 2010 in Beijing by Lin Zhiguo who invested RMB5 million. According to the capital increment agreement executed on 18 October 2013, the Company agreed to contribute a total sum of RMB15 million in three tranches. As at 31 December 2015, the Company had contributed RMB15 million. On 11 August 2015, Intel Semiconductor (Dalian) Co., Ltd. subscribed the increased registered share capital of RMB1.6 million of Beijing Haiyun Jiexun at the consideration of RMB24.83 million. After such increase of share capital, the shareholding ratio of Zhang Zhengyu, Li Hua, employee share ownership, the Company and Intel were 34.06%, 21.98%, 8.62%, 21.55%, 13.79% respectively. The legal representative was Li Hua. The Company was entitled to appoint 1 out of 3 directors in its board. It was accounted for using equity method.

3. Sichuan Baoteng

Sichuan Baoteng was a limited liability company invested and established by Sichuan Mingguan. It obtained its business registration licence on 30 September 2013. The registered share capital at the time of establishment (paid up capital) was RMB1 million. On 30 October 2013, the Company entered into capital increment agreement with Sichuan Mingguan that the Company would subscribe for the newly increased capital in Sichuan Baoteng of RMB0.9608 million at a consideration of RMB42 million. After the increment of capital, the registered capital of Sichuan Baoteng increased to RMB1.9608 million. Sichuan Mingguan and the Company held 51% and 49% of the equity interests of Sichuan Baoteng respectively. On 20 March 2015, Shenzhen Speed Top Network Technology Company Limited (“**Speed Top**”) acquired 51% equity interests of Sichuan Baoteng from Sichuan Mingguan. As at 31 December 2015, Speed Top and the Company held 51% and 49% of the equity interests of Sichuan Baoteng respectively. The board of directors in Sichuan Baoteng had 3 directors, 2 of them were appointed by the Company. The Company had 66.67% voting rights in the board of directors. However, the significant decisions of Sichuan Baoteng were required to be agreed by all directors and shareholders, therefore, it was accounted for using equity method. As at 31 December 2015, the paid-up investment made by the Company was RMB39.85 million.

IV. Details of material acquisitions and disposals

Material acquisition and disposal for the year ended 2013

On 1 March 2013, the Company entered into the share transfer agreement to sell 18% equity interests in Shen-Viet Joint Investment to Shenzhen Powerleader Investment Holdings Company Limited* for a consideration of RMB20 million. Upon the completion, the Company no longer has equity interest in Shen-Viet Joint Investment. This transaction constituted a discloseable transaction of the Company.

On 18 October 2013, the Company entered into a capital increase agreement, pursuant to which, the Company increased its shareholding in its 25%-owned subsidiary Beijing Haiyun Jiexun by capital contribution of RMB15 million.

On 30 October 2013, the Company entered into a capital increase agreement, pursuant to which, the Company increased its shareholding in its 49%-owned subsidiary Sichuan Baoteng by capital contribution of RMB42 million.

In December 2013, the Company invested RMB10 million to incorporate its 100%-owned subsidiary Guangzhou Baoyun.

Material acquisition and disposal for the year ended 2014

The Company entered into the relevant equity interest transfer agreement on 12 February 2014 to sell 99% of equity interest in Nanjing Powerleader to Shenzhen Powerleader Investment Holdings Limited at the consideration of RMB49.50 million. Upon completion of the transaction, the Company ceased to hold its equity interest. The transaction had been reviewed and approved by the Yuhuatai sub-branch of the Administration for Industry & Commerce in Nanjing on 19 February 2014, the transaction does not constitute a discloseable transaction of the Company.

The Company entered into a partnership agreement on 11 June 2014 to invest RMB10 million in Shenzhen Qianhai Pengde Mobile Internet Venture Capital Fund (Limited Partnership)* (深圳市前海鵬德移動互聯網創業投資基金(有限合夥)). Upon completion of the transaction, the Company would hold 4% of its equity interest, the transaction had been reviewed and approved by the Market and Quality Supervision Commission of Shenzhen Municipality on 4 September 2014, the transaction does not constitute a discloseable transaction of the Company.

The Company entered into a share transfer agreement on 25 August 2014 to sell 90% of equity interests in Powerleader Communication to Shenzhen Powerleader Investment Holdings Company Limited for a consideration of RMB1.30 million. Upon completion of the transaction, the Company ceased to hold any of its equity interest. The transaction had been reviewed and approved by the Market and Quality Supervision Commission of Shenzhen Municipality on 2 September 2014, the transaction does not constitute a discloseable transaction of the Company.

Hong Kong Powerleader, a wholly-owned subsidiary of the Company, entered into an investment agreement on 26 December 2014 to invest US\$1 million in SurDoc Corp. Upon completion of the transaction, the Company would hold 2.86% of its equity interest, the transaction does not constitute a discloseable transaction of the Company.

Material acquisition and disposal for the year ended 2015

The capital increase agreement dated 11 August 2015 in relation to capital injection agreement entered into by Intel Semiconductor (Dalian) Ltd., the Company and Beijing Haiyun Jiexun, pursuant to which, Intel Semiconductor (Dalian) Ltd. injected RMB24.83 million to Beijing Haiyun Jiexun. After the capital injection, the Company's shareholding in Beijing Haiyun Jiexun decreased from 25% to 21.55%.

V. Discussion on the performance of the Group*Comparison between the years of 2013 and 2014*

The Group's revenue was mainly derived from the IaaS Business and the MaaS Business. For the year ended 31 December 2014, revenue from IaaS Business and the MaaS Business amounted to RMB536,722,121 and RMB1,297,465,299 respectively (2013: RMB421,329,862 and RMB1,117,986,407), accounted for 28.97% and 70.03% (2013: 27% and 71.63%) of total revenue respectively. Revenue from the IaaS Business increased by 27.39%, which was mainly attributable to the Group's optimization of its product mix during the year ended 31 December 2014. Revenue from MaaS Business increased by 16.05%, mainly due to gradual economic recovery during the year ended 31 December 2014.

Expressed in: RMB

| Item (Profit and loss) | For the year ended 31 December 2014 | For the year ended 31 December 2013 | Change (%) |
|-------------------------------|--|--|-------------------|
| Revenue | 1,852,839,420.50 | 1,560,677,930.33 | 18.72% |
| Operating cost | 1,625,683,987.49 | 1,376,359,016.30 | 18.11% |
| Sales expenses | 45,674,560.79 | 42,666,930.00 | 7.05% |
| Administrative expenses | 63,769,919.26 | 54,415,288.51 | 17.19% |
| Finance costs | 60,769,922.35 | 45,344,781.41 | 34.02% |
| Impairment losses of assets | 2,740,776.05 | 5,328,953.58 | -48.57% |
| Non-operating income | 7,206,490.31 | 11,387,188.83 | 36.71% |
| Non-operating expenses | 258,666.88 | 279,156.38 | -7.34% |

| Items (Cash flow) | For the year ended 31 December 2014 | For the year ended 31 December 2013 | Change (%) |
|--|--|--|-------------------|
| Net cash flows generated from operating activities | -31,577,445.88 | 50,724,256.33 | -162.25% |
| Net cash flows generated from investing activities | -182,457,407.20 | -44,715,622.00 | 308.04% |
| Net cash flows generated from financing activities | 262,261,886.63 | 140,616,911.71 | 86.51% |
| | | | |
| Items (Assets and liabilities) | For the year ended 31 December 2014 | For the year ended 31 December 2013 | Change (%) |
| Account Receivable | 496,542,626.13 | 395,920,420.06 | 25.41% |
| Prepayments | 32,922,620.33 | 32,346,250.20 | 1.78% |
| Interest receivables | — | — | — |
| Construction in progress | 116,741,077.26 | 24,249,172.78 | 381.42% |
| Development expenditure | 21,124,616.31 | 37,043,811.51 | -42.97% |
| Short-term loans | 976,112,408.03 | 552,801,859.89 | 76.58% |
| Notes payable | — | — | — |

Changes in financial indices are as follows:

- (1) Revenue increased by approximately 18.72%, which was mainly attributable to the Group's optimization of its products mix and increase in major internet customers during 2014.
- (2) Cost increased by approximately 18.11%, which was mainly attributable to the increase in revenue and the corresponding cost.
- (3) Sales expenses increased by approximately 7.05%, which was mainly attributable to increase in sales personnel and cargo shipping fees.
- (4) Administrative expenses increased by approximately 17.19%, which was mainly attributable to increase in management personnel and import agency fees.
- (5) Finance costs increased by approximately 34.02%, which was mainly attributable to increase in bank loans for 2014 and the corresponding interest expenses and administrative fee.
- (6) Asset impairment loss decreased by approximately 48.57%, which was mainly attributable to decrease in provision for bad debt and inventory impairment.

- (7) Non-operating income increased by approximately 36.71%, which was mainly attributable to increase in government subsidies.
- (8) Non-operating expenses decreased by approximately 7.34%, which was mainly attributable to reduced loss due disposal of fixed assets.
- (9) Net cash flows generated from financing activities decreased by approximately 162.25%, which was mainly attributable to increase in number of projects executed for 2014.
- (10) Net cash flows generated from investing activities increased by approximately 308.04%, which was mainly attributable to investments in construction of IDC centres in 2014.
- (11) Net cash flows generated from financing activities increased by approximately 86.51%, which was mainly attributable to finance from banks for investments in construction of IDC centres in 2014.
- (12) Account Receivable increased by approximately 25.41%, which was mainly attributable to the relaxation of credit period for customers in order to expand sales.
- (13) Prepayments increased by approximately 1.78%, which was mainly attributable to procurement of raw materials due to urgency.
- (14) Construction in progress increased by approximately 381.42%, which was mainly attributable to the construction investment for the IDC centres.
- (15) Development expenditure decreased by approximately 42.97%, which was mainly attributable to the conversion of research and development project to intangible assets after project completion.
- (16) Short-term loans increased by approximately 76.58%, which was mainly attributable to the investment and inventories in the construction of IDC centres and increase in accounts receivable due to financing from banks.

Comparison between the years of 2014 and 2015

The Group's revenue was mainly derived from the IaaS Business and the MaaS Business. For the year ended 31 December 2015, revenue from IaaS Business and the MaaS Business amounted to RMB805,512,385 and RMB1,849,524,072 respectively (2014: RMB536,722,121 and RMB1,297,465,299), accounted for 29.98% and 68.85% (2013: 28.97% and 70.03%) of total revenue respectively. Revenue from the IaaS Business increased by 50.08%, which was mainly attributable to the increase in revenue from large customers and industrial customers during the year ended 31 December 2015. Revenue from MaaS Business increased by 42.55%, mainly due to gradual recovery in the IT industry and rapid growth of the new business during the year 2015.

Expressed in: RMB

| Item (Profit and loss) | For the year ended 31 December 2015 | For the year ended 31 December 2014 | Change (%) |
|--|--|--|-------------------|
| Revenue | 2,686,354,110.38 | 1,852,839,420.50 | 44.99% |
| Operating cost | 2,433,032,788.56 | 1,625,683,987.49 | 49.66% |
| Sales expenses | 59,544,519.53 | 45,674,560.79 | 30.37% |
| Administrative expenses | 75,623,844.23 | 63,769,919.26 | 18.59% |
| Finance costs | 89,749,447.32 | 60,769,922.35 | 47.69% |
| Impairment losses of assets | 11,490,523.97 | 2,740,776.05 | 319.24% |
| Non-operating income | 13,324,570.47 | 7,206,490.31 | 84.90% |
| Non-operating expenses | 1,549,841.80 | 258,666.88 | 499.17% |
| | For the year ended 31 December 2015 | For the year ended 31 December 2014 | Change (%) |
| Items (Cash flow) | | | |
| Cash flows generated from operating activities | -41,558,662.62 | -31,577,445.88 | 31.61% |
| Cash flows generated from investing activities | -92,933,672.77 | -182,457,407.20 | -49.07% |
| Cash flows generated from financing activities | -1,936,011.67 | 262,261,886.63 | -100.74% |

| Items (Assets and liabilities) | For the year ended 31 December 2014 | For the year ended 31 December 2013 | Change (%) |
|--------------------------------|--|--|---------------|
| Account receivables | 785,651,717.22 | 496,542,626.13 | 58.22% |
| Prepayments | 37,937,239.65 | 32,922,620.33 | 15.23% |
| Interest receivables | — | — | — |
| Construction in progress | — | 116,741,077.26 | — |
| Development expenditure | 43,827,182.72 | 21,124,616.31 | 107.47% |
| Short-term loans | 1,091,452,256.44 | 976,112,408.03 | 11.82% |
| Notes payable | 220,000,000.00 | — | — |

Changes in financial indices are as follows:

- (1) Revenue increased by 44.99%, which was mainly attributable to expansion of sales to large customers and industrial customers and rapid growth of new business.
- (2) Cost increased by 49.66%, which was mainly attributable to increase in revenue and corresponding costs.
- (3) Sales expenses increased by 30.37%, which was mainly attributable to increase in sales personnel, rent, cargo shipping fees and transportation fees.
- (4) Administrative expenses increased by 18.59%, which was mainly attributable to increase in depreciation, listing fees and amortization of intangible asset.
- (5) Finance costs increased by 47.69%, which was mainly attributable to increase in bank borrowings and corresponding interest expense and management fees in 2015.
- (6) Impairment losses of assets increased by 319.24%, which was mainly attributable to increase in provision to accounts receivable for bad debts and impairment provisions for inventory.
- (7) Non-operating income increased by 84.90%, which was mainly attributable to increase in government subsidies.
- (8) Non-operating expenses decreased by 499.17%, which was mainly attributable to increase in loss on disposal of fixed assets.
- (9) Cash flows generated from financing activities decreased by 31.61%, which was mainly attributable to a substantial increase in sales to large customers and industrial customers, as the credit periods were relatively long, resulting in accounts receivable utilized a large amount of working capital.
- (10) Cash flows generated from investing activities increased by 49.07%, which was mainly attributable to no further investment after investment in the construction of IDC centres in 2015.

- (11) Cash flows generated from financing activities increased by 100.74%, which was mainly attributable to no new finance and borrowings from banks after completion of IDC centres in 2015 and no further new investment after such completion.
- (12) Account receivables increased by 58.22%, which was mainly attributable to substantial increase in sales to large customers and industrial customers and the credit periods were relatively long.
- (13) Prepayments increased by 15.23%, which was mainly attributable to procurement of raw materials due to urgency.
- (14) Construction in progress has no change, which was mainly attributable to the conversion of IDC centres to tangible assets after completion of investment and no further investment was made.
- (15) Development expenditure decreased by 107.47%, which was mainly attributable to the research and development project was not yet completed, therefore it has not converted to intangible assets.
- (16) Short-term loans increased by 11.82%, which was mainly attributable to the bank financial services of the Company which led to increase in monetary capital and short-term bank borrowings.
- (17) Notes payable increased by RMB220,000,000, which was mainly attributable issue of bank acceptance bills to the suppliers.

VI. Employee and remuneration

a. Employee composition

As at 31 December 2013, the total number of employees of the Group was 715 and sales staff accounted for 34.1%. As at 31 December 2014, the total number of employees of the Group was 885 and sales staff accounted for 33.3%. As at 31 December 2015, the total number of employees of the Group was 905 and sales staff accounted for 35.03%.

b. Employee remuneration policy

The Group complies with the labour law and regulations promulgated by the PRC government. It has also optimized its human resources management system and improved its talent recruitment and management system. Employee remuneration includes employee salaries and bonuses. The employee salaries are set with reference to the positions of the employees, while the bonuses is determined with reference to the performance of the employees. The Group constantly enhances and improves the remuneration and bonus assessment system to encourage the development of the employees.

c. Training Program

The Group arranges regular staff trainings in enterprise systems, business manners, safety and working skills, and set up knowledge and training database for key posts. These measures aim at improving staff skills and quality substantially. At the same time, the Group has initiated outdoor training, so that its staff can apply the knowledge acquired in training on work, thus promoting improvements for the Group and individuals to achieve growth for both.

VII. Pledge of Assets

As at 31 December 2013, the pledged assets of the Group were the factories and the research and development centre at the Powerleader Technology Park, Guanlan High-Tech Park, Longhua, New District, Shenzhen, with area of 23,558,42 m² and 8,607.82 m² respectively. The amount secured was RMB92,367,352.00.

As at 31 December 2014, the pledged assets of the Group were the factories and the research and development centre at the Powerleader Technology Park, Guanlan High-Tech Park, Longhua New District, Shenzhen, with area of 23,558,42 m² and 8,607.82 m² respectively. The pledged amount was RMB92,367,352.00. The initial carrying amount was RMB68,399,578.69 and the accumulated depreciation as of the end of 2014 was RMB8,858,424.39.

As at 31 December 2015, the pledged assets of the Group were as follows:

- (1) for the short term loan of RMB100 million from CITIC Bank, the pledged asset was Yuhuatai Yuhua District, Yuhua Economic Development Zone Science Education Area (scientific research) (Land No. 14107084017) owned by Nanjing Powerleader, a connected party of the Company. The pledged asset had an appraised value of RMB60,114,300.00 and the pledged amount was RMB48,091,440.00;
- (2) for the short term loan of RMB200 million from China Construction Bank, the pledged assets were factories, the research and development centre located at the Guanlan High-Tech Park, Gualan Road, Bao'an District, Shenzhen (SFDZ No. 5000559246), the original book value of such pledged assets was RMB68,399,578.69, the accumulated depreciated value was RMB10,171,696.35, with factories area of 23,558.42m² and net appraised value of RMB66,434,744.00; research centre area of 8,607.82m² and net appraised value of RMB24,274,052.00, the pledged amount was RMB90,968,926.26; and
- (3) for the short term loan of RMB84 million from Agricultural Bank, the pledged asset was No. 84, 2nd Avenue West, Airport Economic Zone (Real Estate Jin Zi No. 115011200003) owned by Binhai Powerleader. The pledged asset had an area of 22,743.32m², original book value of RMB104,839,985.92, accumulated depreciated value of RMB11,071,102.56, appraised value of RMB186,495,224.00 and the pledged amount was RMB100 million.

VIII. Future plans for material investments or capital assets

In 2016, the Group will integrate the financing environment to optimize its debt structure. It will also leverage on its advantage to integrate with bank resources to formulate specific financing plans.

IX. Material changes in assets and liabilities**a. Material changes in assets**

Comparison between the years 2013 and 2014

Expressed in: RMB

| Item | For the year ended 2014 Balance | For the year ended 2013 Balance | Changes | Explanation for material change |
|-----------------------------|--|--|----------------|--|
| Cash and cash equivalent | 465,885,673.02 | 370,444,415.57 | 25.76% | From investment activities |
| Account receivables | 496,542,626.13 | 395,920,420.06 | 25.41% | Due to extension of billing period |
| Inventories | 321,873,815.99 | 190,991,433.57 | 68.53% | Expansion in mode of manufacturing and sales |
| Investment properties | 13,883,577.12 | 16,838,422.38 | -17.55% | Decrease in rental area of properties located in the industrial park |
| Long term equity investment | 195,544,136.28 | 204,433,275.76 | -4.35% | Provision for investment losses of the Company |
| Fixed assets | 267,943,201.85 | 201,220,888.57 | 33.16% | Transfer from construction in progress |
| Construction in progress | 116,741,077.26 | 24,249,172.78 | 381.42% | Increase in investment in Guangzhou IDC cloud computing data centre |
| Prepayments | 32,922,620.33 | 32,346,250.20 | 1.78% | |
| Development expenditure | 21,124,616.31 | 37,043,811.51 | -42.97% | Near completion of research and development projects |

*Comparison between the years 2014 and 2015**Expressed in: RMB*

| Item | For the year ended 2015 Balance | For the year ended 2014 Balance | Changes | Explanation for material change |
|-----------------------------|---------------------------------------|---------------------------------------|---------|--|
| Cash and cash equivalent | 486,466,976.00 | 465,885,673.02 | 4.42% | Mainly due to increase in security deposit for letter of credit |
| Account receivables | 785,651,717.22 | 496,542,626.13 | 58.22% | Due to extension of settlement period by customers |
| Inventories | 396,209,412.70 | 321,873,815.99 | 23.09% | Expansion in mode of manufacturing and sales |
| Investment properties | 9,036,206.94 | 13,883,577.12 | -34.91% | Decrease in rental area of properties located in the industrial park |
| Long term equity investment | 203,846,547.56 | 195,544,136.28 | 4.25% | Increase in the provision for Company's investment income |
| Fixed assets | 421,305,659.74 | 267,943,201.85 | 57.24% | Transferred from construction in progress of Guangzhou IDC cloud data centre |
| Construction in progress | — | 116,741,077.26 | -100% | Completion of construction of Guangzhou IDC cloud computing data centre and was recorded as fixed assets |
| Prepayments | 37,937,239.65 | 32,922,620.33 | 15.23% | Increase in prepayment for supplier |
| Interest receivables | — | — | | |
| Development expenditure | 43,827,182.72 | 21,124,616.31 | 107.47% | Research and development projects have not been completed and not yet book as intangible assets |

b. Material changes in liabilities*Comparison between the years 2013 and 2014**Expressed in: RMB*

| Item | For the year ended 2014 Balance | For the year ended 2013 Balance | Changes | Explanation for material change |
|------------------|---------------------------------------|---------------------------------------|---------|---------------------------------|
| Short-term loans | 976,112,408.03 | 552,801,859.89 | 76.58% | Increase in bank loans |
| Long-term loans | — | 140,000,000.00 | -100% | Repayment of long-term loans |

*Comparison between the years 2014 and 2015**Expressed in: RMB*

| Item | For the year ended 2015 Balance | For the year ended 2014 Balance | Changes | Explanation for material change |
|------------------|---------------------------------------|---------------------------------------|---------|--|
| Short-term loans | 1,091,452,256.44 | 976,112,408.03 | 11.82% | Increase in bank loans |
| Long-term loans | 115,000,000.00 | — | 100% | Long term loan for new fixed assets |
| Notes payable | 220,000,000.00 | — | 100% | Open of bank acceptance bills to suppliers |

c. Debt ratio

As at 31 December 2013, the debt ratio of the Group was 57.65% (2012: 51.71%). The debt ratio of the Group is calculated by dividing total liabilities by total assets and the debt ratio increased by 5.94% as compared to the year ended 31 December 2012.

As at 31 December 2014, the debt ratio of the Group was 64.94% (2013: 57.65%). The debt ratio of the Group is calculated by dividing total liabilities by total assets and the debt ratio increased by 7.29% as compared to the year ended 31 December 2013.

As at 31 December 2015, the debt ratio of the Group was 70.54% (2014: 64.94%). The debt ratio of the Group is calculated by dividing total liabilities by total assets and the debt ratio increased by 5.60% as compared to the year ended 31 December 2014.

X. Exposure to fluctuations in exchange rates and any related hedges

For the year ended 31 December 2014, approximately 62% (2013: 62%) of the sales revenue was not denominated in the functional currencies of the Group's entity carrying on the sales, and only approximately 21% (2013: 21%) of the costs were denominated in the functional currencies of the Group's entities. As such, the Group is exposed to foreign exchange risks. The Group did not hedge against foreign exchange risks.

For the year ended 31 December 2015, approximately 67% (2014: 62%) of the sales revenue was not denominated in the functional currencies of the Group's entity carrying on the sales, and only approximately 27% (2014: 21%) of the costs were denominated in the functional currencies of the Group's entities. As such, the Group was exposed to foreign exchange risks. The Group did not hedge against foreign exchange risks.

XI. Details of contingent liabilities*Contingent liabilities for the year ended 31 December 2013**1. Significant commitments*

- (1) Sub-contracting contracts with significant amount that were contracted and executing or readily for execution

As at 31 December 2013, the Group has sub-contracting contracts with significant amount contracted but not yet paid totalling RMB48,200,797.00. The details are as follows:

Expressed in: RMB

| Project | Contract amount (RMB) | Amount paid | Amount recognised as liabilities | Amount unrecognised | Estimated investment period |
|--|------------------------------|-----------------------------|---|-----------------------------|------------------------------------|
| Shenzhen Guanlan Cloud Computing Data Centre | 60,541,815.00 | 16,710,618.00 | 9,398,927.75 | 34,432,269.25 | 2014 |
| Nanjing Powerleader | <u>31,949,125.00</u> | <u>27,579,525.00</u> | <u>—</u> | <u>4,369,600.00</u> | 2014 |
| Total | <u><u>92,490,940.00</u></u> | <u><u>44,290,143.00</u></u> | <u><u>9,398,927.75</u></u> | <u><u>38,801,869.25</u></u> | |

- (2) Lease agreement contracted for or readily for execution and their financial effect

As at 31 December 2013 (T), the Group, as a lessee, had contracted with landlord for the minimum lease payables commitments during the following periods under non-cancellable operating leases in respect of office building and plant:

Expressed in: RMB

| Period | Amount for this year | Amount for last year |
|----------------------------|-----------------------------|-----------------------------|
| Within 1 year (T + 1 year) | 1,691,600.49 | 2,567,000.00 |
| 1 to 2 years (T + 2 year) | 286,136.12 | 938,000.00 |
| 2 to 3 years (T + 3 year) | <u>139,200.00</u> | <u>—</u> |
| Total | <u><u>2,116,936.61</u></u> | <u><u>3,505,000.00</u></u> |

As at 31 December 2013 (T), the Group, as a lessor, had contracted with tenant for the minimum lease receivable during the following periods under non-cancellable operating leases in respect of plant and fixed asset:

Expressed in: RMB

| Period | Amount for this year | Amount for last year |
|--------------------------|---------------------------------|---------------------------------|
| Within 1 year (T+1 year) | 1,678,260.00 | 1,821,000.00 |
| 1 to 2 years (T+2 year) | 1,096,388.00 | 1,723,000.00 |
| 2 to 3 years (T+3 year) | 288,134.00 | — |
| 3 to 4 years (T+4 year) | — | — |
| Total | <u>3,062,782.00</u> | <u>3,544,000.00</u> |

(3) Agreement for acquisitions contracted for or readily for execution and their financial effect

There were no executing or readily for executing acquisition agreements for the current year.

2. Execution of commitments of prior period

There were no exceptions in executing the commitments of prior periods.

3. Other than the details as disclosed above, the Group had no significant commitments at 31 December 2013.

Contingent liabilities for the year ended 31 December 2014

1. Significant commitments

(1) The capital expenditure commitments of the Group as at the end of the year

The capital expenditure commitments that have been contracted for but not recognised in the financial statements:

Expressed in: RMB

| Item | Closing amount | Opening amount |
|--------------------------|-----------------------------|-----------------------------|
| Construction in progress | 31,209,412.47 | 38,801,869.25 |
| External Investment | <u>6,119,000.00</u> | — |
| Total | <u>37,328,412.47</u> | <u>38,801,869.25</u> |

As of 31 December 2014, the Group still has a total of RMB37,328,400 of agreed material external investment expenses contracted for but has not been paid, particulars are as set out below:

Expressed in: RMB

| Name of investment item | Contractual investment amount | Investment amount paid | Investment amount payable | Expected investment period | Note |
|---|-------------------------------|------------------------|---------------------------|----------------------------|------|
| Guangzhou (IDC) Center for Cloud Computing and Data | 154,507,657.88 | 123,298,245.41 | 31,209,412.47 | 2015 | |
| Equity investment in SurDoc Corp. | 6,119,000.00 | — | 6,119,000.00 | 2015 | Note |
| Total | <u>160,626,657.88</u> | <u>123,298,245.41</u> | <u>37,328,412.47</u> | | |

Note:

Hong Kong Powerleader, a wholly-owned subsidiary of the Company, entered into relevant investment agreement on 26 December 2014 to invest US\$1 million to SurDoc Corp. Upon completion of the transaction, the Company would hold 2.86% of its equity interest.

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

As at 31 December 2014 (T), the Group, as the lessee, had the following total future minimum lease payables commitments during the following periods under the requirements of non-cancellable operating leases in respect of (among others) office building and plants:

Expressed in: RMB

| Period | Amount for this year | Amount for last year |
|---------------------------------|-----------------------|----------------------|
| Within one year (T + 1 year) | 12,555,065.32 | 1,691,600.49 |
| One to two years (T + 2 year) | 10,778,367.88 | 286,136.12 |
| Two to three years (T + 3 year) | 10,457,559.82 | 139,200.00 |
| Over three years (T + 3 year) | <u>180,527,021.17</u> | <u>—</u> |
| Total | <u>214,318,014.19</u> | <u>2,116,936.61</u> |

As at 31 December 2014 (T), the Group, as a lessor, had the following total future minimum lease receivables during the following periods under non-cancellable operating leases in respect of buildings and structures:

Expressed in: RMB

| Period | Amount for this year | Amount for last year |
|---------------------------------|---------------------------------|---------------------------------|
| Within one year (T + 1 year) | 846,680.00 | 1,678,260.00 |
| One to two years (T + 2 year) | 302,544.00 | 1,096,388.00 |
| Two to three years (T + 3 year) | — | 288,134.00 |
| Total | <u>1,149,224.00</u> | <u>3,062,782.00</u> |

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

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

2. Fulfilment of commitments of prior periods

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

3. Other than the above mentioned commitments, the Group had no other significant commitments as of 31 December 2014.

Contingent liabilities for the year ended 31 December 2015

1. Significant commitments

(1) The capital expenditure commitments of the Group as at the end of the year

The capital expenditure commitments that have been contracted for but not recognised in the financial statements:

Expressed in: RMB

| Item | Closing amount | Opening amount |
|--------------------------|---------------------------|-----------------------------|
| Construction in progress | — | 31,209,412.47 |
| External Investment | — | 6,119,000.00 |
| Total | <u>—</u> | <u>37,328,412.47</u> |

As of 31 December 2015, the Group has no agreed material external investment expenses contracted for but has not been paid.

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

As at 31 December 2015 (T), the Group, as the lessee, had the following total future minimum lease payables commitments during the following periods under the requirements of non-cancellable operating leases in respect of office and plants:

Expressed in: RMB

| Period | Amount for this year | Amount for last year |
|---------------------------------|---------------------------------|---------------------------------|
| Within one year (T + 1 year) | 13,932,482.92 | 12,555,065.32 |
| One to two years (T + 2 year) | 11,128,175.48 | 10,778,367.88 |
| Two to three years (T + 3 year) | 11,444,020.02 | 10,457,559.82 |
| Over three years (T + 3 year) | <u>166,492,316.57</u> | <u>180,527,021.17</u> |
| Total | <u>202,996,994.99</u> | <u>214,318,014.19</u> |

As at 31 December 2015 (T), the Group, as the lessor, had the following total future minimum lease payables commitments during the following periods under the requirements of non-cancellable operating leases in respect of buildings and structures:

Expressed in: RMB

| Period | Amount for this year | Amount for last year |
|-------------------------------|---------------------------------|---------------------------------|
| Within one year (T + 1 year) | 1,062,144.00 | 846,680.00 |
| One to two years (T + 2 year) | <u>—</u> | <u>302,544.00</u> |
| Total | <u>1,062,144.00</u> | <u>1,149,224.00</u> |

As at 31 December 2015 (T), the Group, as a lessee, had the following total future minimum lease receivables during the following periods under non-cancellable operating leases in respect of machinery and equipment:

Expressed in: RMB

| Period | Amount for this year | Amount for last year |
|---------------------------------|-----------------------------|-------------------------|
| Within one year (T + 1 year) | 21,047,616.00 | — |
| One to two years (T + 2 year) | 21,047,616.00 | — |
| Two to three years (T + 3 year) | <u>11,926,982.00</u> | <u>—</u> |
| Total | <u><u>54,022,214.00</u></u> | <u><u>—</u></u> |

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

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

2. Fulfilment of commitments of prior periods

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

3. Other than the above mentioned commitments, the Group had no other significant commitments as of 31 December 2015.

B. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AFTER THE COMPLETION OF THE DISPOSAL AND THE ACQUISITION

I. Liquidity and financial resources

As at 31 December 2015, the cash and cash equivalents of the remaining business of the Group after the completion of the Disposal and the Acquisition was RMB717,473,320.93, which included restricted cash and cash equivalents of RMB234,257,848.56 being the guarantee deposits for letters of credit and bank drafts.

II. Discussion on the performance of the remaining business of the Group

Comparison between the unaudited pro forma financial information of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 and the audited financial information of the Group for the year ended 31 December 2015

The income of the remaining business of the Group after the completion of the Disposal and the Acquisition will be mainly derived from the MaaS Business.

Expressed in: RMB

| Item (Profit and loss) | Audited performance of the Group for the year ended 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 | Changes (%) |
|--|---|---|--------------------|
| Returns on investments | 7,329,851.91 | 1,673,329,851.91 | 22,728.97 |
| Income tax expenses | 8,462,790.05 | 30,223,169.63 | 257.13 |
| | | | |
| Items (Cash flow) | Audited performance of the Group for the year ended 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 | Changes (%) |
| Net cash flows generated from investing activities | -92,933,672.77 | 172,993,204.62 | 186.25 |
| | | | |
| Items (Assets and liabilities) | Audited performance of the Group for the year ended 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 | Changes (%) |
| Long term equity investments | 203,846,547.56 | 1,619,946,547.56 | 694.69 |
| Tax payables | 54,291,104.82 | 66,564,981.49 | 22.61 |
| Undistributed profits | 509,876,824.43 | 1,888,437,674.99 | 270.37 |

Changes in financial indices are as follows:

- (1) Returns on investments increased by 22,728.97%, which was mainly attributable to the investment returns obtained after the completion of the Disposal and Acquisition.
- (2) Income tax expenses increased by 257.13%, which was mainly attributable to enterprise income tax provision for the investment returns obtained after the completion of the Disposal and Acquisition.
- (3) Cash flows generated from investing activities increased by 186.25%, which was mainly attributable to the cash obtained after the completion of the Disposal and Acquisition.
- (4) Long term equity investments increased by 694.69%, which was mainly attributable to Taiji Computer Shares acquired after the completion of the Disposal and Acquisition.
- (5) Tax payables increased by 22.61%, which was mainly attributable to enterprise income tax provision for the investment returns obtained after the completion of the Disposal and Acquisition.
- (6) Undistributed profits increased by 270.37%, which was mainly attributable to the investment returns obtained after the completion of the Disposal and Acquisition.

III. Material changes in assets and liabilities

Expressed in: RMB

| Item (Assets and liabilities) | Audited performance of the Group for the year ended 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 | Changes (%) | Explanation for material changes |
|-------------------------------|---|---|----------------|--|
| Cash and cash equivalents | 486,466,976.00 | 717,473,320.93 | 47.49 | Mainly attributable to the cash obtained from the Disposal and Acquisition |
| Long term equity investments | 203,846,547.56 | 1,619,946,547.56 | 694.69 | Mainly attributable to the Taiji Computer Shares obtained from the Disposal and Acquisition |
| Tax payables | 54,291,104.82 | 66,564,981.49 | 22.61 | Mainly attributable to the provision for the enterprise income tax for the investment returns obtained from the Disposal and Acquisition |
| Undistributed profits | 509,876,824.43 | 1,888,437,674.99 | 270.37 | Mainly attributable to the investment returns obtained from the Disposal and Acquisition |

IV. Employee and remuneration

For the management discussion and analysis on the Group after completion of the Disposal and the Acquisition in relation to “Employee and remuneration”, please refer to “Employee and remuneration” under the section headed “A. Management discussion and analysis on the Group” in Appendix I — Financial Information of the Group. After completion of the Disposal and the Acquisition, the number of employees in Powerleader Computing, Powerleader Software and Powerleader Computing (Hong Kong) will be reduced to 561.

For the management discussion and analysis on the Group after completion of the Disposal and the Acquisition in relation to “Prospects for new business”, “Significant investment held and their performance”, “Details of material acquisitions and disposals”, “Pledge of Assets”, “Future plans for material investments or capital assets” and “Exposure to fluctuation in exchange rates and any related hedges”, please refer to the relevant sub-sections under the section headed “A. Management discussion and analysis on the Group” in Appendix I — Financial Information of the Group.

C. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP AFTER THE DISPOSAL OF THE TAIJI COMPUTER SHARES INVOLVED IN THE BUY-BACK OPTION

The management discussion and analysis on the Group after the disposal of the Taiji Computer Shares involved in the Buy-back Option (“Repurchase”) are based on the following assumptions: (i) the Group completed the sale of the business carried on by Powerleader Computing and Powerleader Software at 31 December 2015; (ii) there is no other issue or repurchase of shares by Taiji Computer prior to completion of the Disposal and Acquisition, and the Total Consideration Shares represent approximately 9.46% of the issued share capital of Taiji Computer as at the Latest Practicable Date; and (iii) if the audited net profit attributable to shareholders of Powerleader Computing in the consolidated accounts falls short of the agreed amount during the Compensation Period, the Company will have to pay compensation to Taiji Computer in the form of Taiji Computer Shares. Based on issue price of RMB36.02 per Taiji Computer Share (subject to adjustment) and the consideration of the Disposal of RMB1,666,000,000, the maximum number of Taiji Computer Shares to be given up by the Company and PC Research Institute under the Profit Guarantee Compensation and the Asset Impairment Compensation becomes 46,252,082 Taiji Computer Shares. The Repurchase will be arranged based on the maximum compensation of RMB1,666,000,000 and the number of Taiji Computer Shares available for compensation shall not exceed 46,252,082 (based on issue price of RMB36.02 per Taiji Computer Share).

I. Liquidity and financial resources

As at 31 December 2015, after the Repurchase, the cash and cash equivalents of the Group was RMB467,573,321.93, which included restricted cash and cash equivalents of RMB234,257,848.56 being the guarantee deposits in other cash monetary funds pledged to banks for opening letters of credits and security deposit for bank acceptance bills.

II. Discussion on the performance of the remaining business of the Group

Comparison between the unaudited pro forma financial information of the remaining business of the Group after the completion of the Disposal and the Acquisition as at 31 December 2015 and the unaudited pro forma financial information of the remaining business of the Group after the Repurchase as at 31 December 2015

The income of the remaining business of the Group after the repurchase by Taiji Computer was mainly derived from the MaaS Business.

Expressed in: RMB

| Item (Profit and loss) | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and the Acquisition as at 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after the repurchase by Taiji Computer as at 31 December 2015 | Changes (%) |
|--|---|---|------------------------|
| Returns on investments | 1,673,329,851.91 | 7,329,852.91 | -99.56 |
| Income tax expenses | 30,223,169.63 | 30,223,169.63 | — |
| | | | |
| Items (Cash flow) | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after repurchase by Taiji Computer as at 31 December 2015 | Changes (%) |
| Cash flows generated from investing activities | 172,993,204.62 | -76,906,794.38 | -144.46 |

| Items (Assets and liabilities) | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after repurchase by Taiji Computer as at 31 December 2015 | Changes (%) |
|---------------------------------------|---|---|------------------------|
| Long term equity investments | 1,619,946,547.56 | 203,846,547.56 | -87.42 |
| Tax payables | 66,564,981.49 | 66,564,981.49 | — |
| Undistributed profits | 1,888,437,674.99 | 222,437,675.99 | -88.22 |

Changes in financial indices are as follows:

- (1) Returns on investments decreased by 99.56%, which was mainly due to the investment loss arising from the repurchase by Taiji Computer.
- (2) Income tax expenses remained unchanged.
- (3) Cash flows generated from investing activities decreased by 144.46%, which was mainly due to the cash paid for the repurchase by Taiji Computer.
- (4) Long term equity investments decreased by 87.42%, which was mainly due to the shares compensated to Taiji Computer for the repurchase by Taiji Computer.
- (5) Tax payables remained unchanged.
- (6) Undistributed profits decreased by 88.22%, which was mainly due to the investment loss arising from the repurchase by Taiji Computer.

III. Material changes in assets and liabilities

Expressed in: RMB

| Item | Unaudited pro forma performance of the remaining business of the Group after the completion of the Disposal and Acquisition as at 31 December 2015 | Unaudited pro forma performance of the remaining business of the Group after repurchase by Taiji Computer as at 31 December 2015 | Changes (%) | Explanation for material changes |
|------------------------------|--|--|-------------|---|
| Cash and cash equivalent | 717,473,320.93 | 467,573,321.93 | -34.83 | Mainly attributable to the cash paid for the Repurchase |
| Long term equity investments | 1,619,946,547.56 | 203,846,547.56 | -87.42 | Mainly attributable to the Taiji Computer Shares compensated for the Repurchase |
| Tax payables | 66,564,981.49 | 66,564,981.49 | — | |
| Undistributed profits | 1,888,437,674.99 | 222,437,675.99 | -88.22 | Mainly due to the investment loss arose from the Repurchase |

IV. Employee and remuneration

For the management discussion and analysis on the Group after the sale of the Taiji Computer Shares involved in the Buy-back Option in relation to “Employee and remuneration”, please refer to “Employee and remuneration” under the section headed “A. Management discussion and analysis on the Group” in Appendix I — Financial Information of the Group. After the sale of the Taiji Computer Shares involved in the Buy-back Option, the number of employees in Powerleader Computing, Powerleader Software and Powerleader Computing (Hong Kong) will be reduced to 561.

For the management discussion and analysis on the Group after the disposal of the Taiji Computer Shares involved in the Buy-back Option in relation to “Prospects for new business”, “Significant investment held and their performance”, “Details of material acquisitions and disposals”, “Pledge of Assets”, “Future plans for material investments or capital assets” and “Exposure to fluctuation in exchange rates and any related hedges”, please refer to the relevant sub-sections under the section headed “A. Management discussion and analysis on the Group” in Appendix I — Financial Information of the Group.

**I. AUDITOR'S REPORT ON THE REVIEW OF FINANCIAL INFORMATION OF
THE SERVER AND SOFTWARE BUSINESSES TO BE DISPOSED**

信永中和
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100027, P.R.China

Board of Directors of Powerleader Science & Technology Group Limited:

We reviewed that attached financial statements of Powerleader Science & Technology Group Limited (hereinafter referred to as “Powerleader”) related to the proposed sale of server and software business involving Shenzhen Powerleader Computing System Limited (hereinafter referred to as “Powerleader Computing”), including the consolidated balance sheet dated on December 31, 2015, December 31, 2014 and December 31, 2013, and consolidated profit and loss statement, consolidated statement of cash flow, consolidated statement of changes in shareholders’ equity and notes to financial statements of 2015, 2014 and 2013. The compilation and fair presentation of these financial statements are the responsibility of the management of Powerleader. Our responsibility is to issue review reports to these financial statements on the basis of executing review work.

We executed review business in accordance with the regulations of *Chinese Certified Public Accountant Review Principle No. 2101 — Review of Financial Statement*. This principle requires us to plan and implement review work so as to obtain limited guarantee to the financial statement that whether it does not have material misstatement. The review is mainly limited to enquiring the company’s relevant personnel and implementing analysis program to the financial data; the guarantee degree provided is inferior to auditing. We did not implement auditing, and therefore does not state auditing opinions.

In accordance with our review, we did not notice any matter which made us believe that the financial statements were not compiled in accordance with Accounting Standards for Business Enterprises in all significant aspects, or incapable of fairly reflecting Powerleader Computing’s consolidated financial position on December 31, 2015, December 31, 2014 and December 31, 2013 and its consolidated operation achievement and cash flow of 2015, 2014 and 2013.

ShineWing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant
Guo Jinlong

Chinese Certified Public Accountant
Qiu Lequn

Beijing, China

11 May 2016

The following financial information is prepared by Powerleader Computing as at 31 December 2015, 31 December 2014 and 31 December 2013; and for the years 2015, 2014, 2013:

II. SIMULATED CONSOLIDATED BALANCE SHEET

| Item | Note | As at 31 December 2015 | As at 31 December 2014 | As at 31 December 2013 |
|---|-------|------------------------------|------------------------------|------------------------------|
| Current Assets | | | | |
| Cash and cash equivalents | V. 1 | 18,893,655.07 | 18,454,848.97 | 55,532,781.65 |
| Notes receivable | V. 2 | 6,063,095.02 | 27,772,871.40 | 19,850,837.81 |
| Accounts receivable | V. 3 | 360,952,250.99 | 206,907,406.88 | 120,945,774.08 |
| Prepayments | V. 5 | 32,515,113.62 | 32,795,558.02 | 28,319,233.36 |
| Other receivables | V. 4 | 173,962,112.18 | 162,097,219.72 | 143,776,532.54 |
| Inventories | V. 6 | 143,166,520.58 | 98,030,011.51 | 65,369,854.27 |
| Other current assets | V. 7 | 686,514.14 | 7,057,761.62 | 3,675,021.98 |
| Total current assets | | <u>736,239,261.60</u> | <u>553,115,678.12</u> | <u>437,470,035.69</u> |
| Non-current assets | | | | |
| Fixed assets | V. 8 | 10,443,644.71 | 12,873,909.84 | 12,796,468.94 |
| Intangible assets | V. 10 | 31,587,573.28 | 35,060,319.86 | 10,148,290.85 |
| Development expenditure | V. 9 | 42,945,948.74 | 21,124,616.31 | 37,043,811.51 |
| Deferred income tax assets | V. 11 | 903,192.54 | 2,724,833.62 | 2,696,579.90 |
| Total non-current assets | | <u>85,880,359.27</u> | <u>71,783,679.63</u> | <u>62,685,151.20</u> |
| Total assets | | <u>822,119,620.87</u> | <u>624,899,357.75</u> | <u>500,155,186.89</u> |
| Current liabilities | | | | |
| Short-term loans | V. 13 | — | — | 40,000,000.00 |
| Accounts payable | V. 14 | 416,716,681.32 | 274,041,106.54 | 135,110,195.31 |
| Receipts in advance | V. 15 | 21,648,944.44 | 8,637,726.49 | 12,124,719.57 |
| Employee remuneration payables | V. 16 | 5,041,837.69 | 4,852,879.36 | 3,832,389.96 |
| Tax and levy payables | V. 17 | 25,211,123.33 | 3,819,654.55 | 7,509,620.81 |
| Other payables | V. 18 | 40,142,620.37 | 100,191,677.92 | 137,204,083.77 |
| Other current liabilities | V. 19 | 1,353,562.56 | 2,203,923.76 | 1,090,578.61 |
| Total current liabilities | | <u>510,114,769.71</u> | <u>393,746,968.62</u> | <u>336,871,588.03</u> |
| Non-current liabilities | | | | |
| Deferred income | V. 20 | 20,660,000.00 | 9,941,188.15 | 10,420,598.73 |
| Total non-current liabilities | | <u>20,660,000.00</u> | <u>9,941,188.15</u> | <u>10,420,598.73</u> |
| Total Liabilities | | <u>530,774,769.71</u> | <u>403,688,156.77</u> | <u>347,292,186.76</u> |
| Owners' equity | | | | |
| Capital | V. 21 | 38,000,000.00 | 38,000,000.00 | 38,000,000.00 |
| Capital reserves | V. 21 | 45,433,917.44 | 45,233,917.44 | 45,233,917.44 |
| Undistributed profits | V. 21 | 207,910,933.72 | 137,977,283.54 | 69,629,082.69 |
| Total equity attributable to shareholders of the Company | | <u>291,344,851.16</u> | <u>221,211,200.98</u> | <u>152,863,000.13</u> |
| Minority interests | | | | |
| Total shareholders' equity | | <u>291,344,851.16</u> | <u>221,211,200.98</u> | <u>152,863,000.13</u> |
| Total liabilities and shareholders' equity | | <u>822,119,620.87</u> | <u>624,899,357.75</u> | <u>500,155,186.89</u> |

III. SIMULATED CONSOLIDATED INCOME STATEMENT

| Item | Note | Amount for 2015 | Amount for 2014 | Amount for 2013 |
|--|--------|-----------------|-----------------|-----------------|
| I. Total revenue | V. 22 | 772,596,528.17 | 484,282,980.02 | 380,954,508.84 |
| Including: revenue | | 772,596,528.17 | 484,282,980.02 | 380,954,508.84 |
| II. Total operating cost | | 701,004,748.52 | 414,755,617.90 | 327,632,699.44 |
| Including: Operating cost | V. 22 | 615,951,801.25 | 358,384,347.24 | 285,296,778.48 |
| Business taxes and surcharges | V. 23 | 956,314.93 | 587,118.37 | 1,187,452.33 |
| Sales expenses | V. 24 | 29,430,697.44 | 21,002,610.39 | 17,023,876.05 |
| Administrative expenses | V. 25 | 34,509,561.35 | 30,324,428.24 | 24,187,590.20 |
| Finance costs | V. 26 | 13,482,034.17 | 2,241,206.52 | 632,722.71 |
| Impairment loss of assets | v. 27 | 6,674,339.38 | 2,215,907.14 | -695,720.33 |
| III. Operating profit (loss is denoted as “-”) | | 71,591,779.65 | 69,527,362.12 | 53,321,809.40 |
| Add: Non-operating income | V. 28 | 15,400,527.74 | 7,116,825.26 | 5,341,161.01 |
| Including: Gain on disposal of non-current assets | | 143.00 | 1.60 | — |
| Less: Non-operating expenses | V. 29 | 1,334,036.79 | 3,964.03 | 27,046.81 |
| Including: Loss on disposal of non-current assets | | 1,126,321.60 | 3,964.03 | 25,959.75 |
| IV. Total Profit (total loss is denoted as “-”) | | 85,658,270.60 | 76,640,223.35 | 58,635,923.60 |
| Less: Income tax expenses | V. 30 | 15,724,620.42 | 8,292,022.50 | 5,823,843.42 |
| V. Net profit (net loss is denoted as “-”) | | 69,933,650.18 | 68,348,200.85 | 52,812,080.18 |
| Net profit attributable to shareholders of the Company | | 69,933,650.18 | 68,348,200.85 | 52,812,080.18 |
| Profit or loss attributable to minority interests | | — | — | — |
| VI. Other comprehensive income net of tax | | | | |
| VII. Total comprehensive income | | 69,933,650.18 | 68,348,200.85 | 52,812,080.18 |
| Total comprehensive income attributable to shareholders of the Company | | 69,933,650.18 | 68,348,200.85 | 52,812,080.18 |
| Total comprehensive income attributable to minority interests | | — | — | — |
| VIII. Earnings per share | | | | |
| (I) Basic earnings per share | VI. 40 | | | |
| (II) Diluted earnings per share | VI. 40 | | | |

IV. SIMULATED CONSOLIDATED CASH FLOW STATEMENT

| Item | Note | Amount for 2015 | Amount for 2014 | Amount for 2013 |
|--|------|-----------------------|-----------------------|-----------------------|
| I. Cash flows generated from operating activities | | | | |
| Cash received from sale of goods and rendering of services | | 750,157,072.93 | 477,162,460.74 | 419,619,544.47 |
| Refund of taxes and levies received | | 2,965,355.10 | 3,799,946.97 | 4,171,969.22 |
| Other cash receipts relating to operating activities | | 10,158,220.68 | 49,685,805.98 | 6,415,364.37 |
| Sub-total of cash inflows from operating activities | | 763,280,648.71 | 530,648,213.69 | 430,206,878.06 |
| Cash paid for purchase of goods and receiving services | | 577,985,137.37 | 472,300,893.87 | 301,767,176.30 |
| Cash paid to and on behalf of employees | | 30,256,784.78 | 26,543,020.73 | 14,747,340.89 |
| Payments of taxes and levies | | 15,565,302.17 | 13,184,214.48 | 21,968,083.65 |
| Other cash payments relating to operating activities | | 123,007,740.90 | — | 70,642,979.79 |
| Sub-total of cash outflows from operating activities | | 746,814,965.22 | 512,028,129.08 | 409,125,580.63 |
| Net cash flows generated from operating activities | | 16,465,683.49 | 18,620,084.61 | 21,081,297.43 |
| II. Cash flows generated from investing activities | | | | |
| Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets | | 9,576.33 | — | — |
| Sub-total cash inflows from investing activities | | 9,576.33 | — | — |
| Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets | | 16,036,453.72 | 12,721,810.77 | 6,311,537.81 |
| Sub-total cash outflows from investing activities | | 16,036,453.72 | 12,721,810.77 | 6,311,537.81 |
| Net cash flows generated from investing activities | | -16,026,877.39 | -12,721,810.77 | -6,311,537.81 |

| Item | Note | Amount for 2015 | Amount for 2014 | Amount for 2013 |
|---|------|-----------------|-----------------|-----------------|
| III. Cash flows generated from financing activities | | | | |
| Cash received from loans | | | | 40,000,000.00 |
| Sub-total cash inflows from financing activities | | — | — | 40,000,000.00 |
| Cash payments for settlement of debts | | | 40,000,000.00 | 40,000,000.00 |
| Cash payments for distribution of dividend, profits or interests settlement | | | 2,976,206.52 | 2,600,249.68 |
| Sub-total cash outflows from financing activities | | — | 42,976,206.52 | 42,600,249.68 |
| Net cash flows generated from financing activities | | — | -42,976,206.52 | -2,600,249.68 |
| IV. Effect of changes in exchange rate on cash and cash equivalents | | | | |
| V. Net increase in cash and cash equivalents | | 438,806.10 | -37,077,932.68 | 12,169,509.94 |
| Add: Balance of cash and cash equivalents at beginning of period | | 18,454,848.97 | 55,532,781.65 | 43,363,271.71 |
| VI. Balance of cash and cash equivalents at end of period | | 18,893,655.07 | 18,454,848.97 | 55,532,781.65 |

Notes to Simulated Financial Statements to Shenzhen Powerleader Computing System Limited in 2015,
2014 and 2013

(Except for special statement, the monetary unit is RMB.)

I. BASIC INFORMATION ABOUT THE COMPANY

In October 2003, Shenzhen Powerleader Science & Technology Co., Ltd. (renamed as Powerleader Science & Technology Group Limited, “Powerleader Technology” for short) and Shenzhen Xindingtong Industry Co., Ltd. (renamed as Shenzhen Wangcheng Technology Co., Ltd. in February 2008) jointly funded to establish Shenzhen Baoding Electronics Co., Ltd. with a registered capital of 10 million yuan. In May 2005, Shenzhen Baoding Electronic Co., Ltd. was renamed as Shenzhen Powerleader Computing System Limited (“Powerleader Computing” or “the Company”). The equity structure was as follows:

| Number | Name of shareholders | Contribution amount (10,000 yuan) | Contribution ratio |
|--------------|---|---|-----------------------|
| 1 | Shenzhen Powerleader Science & Technology Co., Ltd. | 900.00 | 90.00% |
| 2 | Shenzhen Xindingtong Industry Co., Ltd. | <u>100.00</u> | <u>10.00%</u> |
| Total | | <u><u>1,000.00</u></u> | <u><u>100.00%</u></u> |

In January 2007, Shenzhen Xindingtong Industry Co., Ltd. reached an agreement with Shenzhen Powerleader Science & Technology Co., Ltd. to transfer its 9.5% equity interest of Powerleader Computing to Shenzhen Powerleader Science & Technology Co., Ltd. After the equity transfer, the equity structure was as follows:

| Number | Name of shareholders | Contribution amount (10,000 yuan) | Contribution ratio |
|--------------|---|---|-----------------------|
| 1 | Shenzhen Powerleader Science & Technology Co., Ltd. | 995.00 | 99.50% |
| 2 | Shenzhen Xindingtong Industry Co., Ltd. | <u>5.00</u> | <u>0.50%</u> |
| Total | | <u><u>1,000.00</u></u> | <u><u>100.00%</u></u> |

In February 2009, Shenzhen Wangcheng Technology Co., Ltd. reached an agreement with Shenzhen Powerleader Investment Holdings Co., Ltd. to transfer its 0.5% equity interest of Powerleader Computing to Shenzhen Powerleader Investment Holdings Co., Ltd. After the equity transfer, the equity structure was as follows:

| Number | Name of shareholders | Contribution amount (10,000 yuan) | Contribution ratio |
|--------------|--|---|-----------------------|
| 1 | Shenzhen Powerleader Technology Group Co., Ltd. | 995.00 | 99.50% |
| 2 | Shenzhen Powerleader Investment Holdings Co., Ltd. | <u>5.00</u> | <u>0.50%</u> |
| Total | | <u><u>1,000.00</u></u> | <u><u>100.00%</u></u> |

In February 2010, the shareholders meeting of Powerleader Computing passed the resolution to convert its capital reserve of 26 million yuan into share capital. After the conversion, the registered capital of Powerleader Computing increased from 10 million yuan to 36 million yuan. With the capital increment, the equity structure was as follows:

| Number | Name of shareholders | Contribution amount (10,000 yuan) | Contribution ratio |
|---------------|--|--|-------------------------------|
| 1 | Shenzhen Powerleader Technology Group Co., Ltd. | 3,582.00 | 99.50% |
| 2 | Shenzhen Powerleader Investment Holdings Co., Ltd. | <u>18.00</u> | <u>0.50%</u> |
| Total | | <u><u>3,600.00</u></u> | <u><u>100.00%</u></u> |

In September 2010, the shareholders meeting of Powerleader Computing passed the resolution to agree Shenzhen Hecheng Bochuang Technology Co., Ltd. to increase a capital of 2 million yuan to Powerleader Computing. With the capital increment, the registered capital of Powerleader Computing changed to 38 million yuan, and the equity structure of Powerleader Computing was as follows:

| Number | Name of shareholders | Contribution amount (10,000 yuan) | Contribution ratio |
|---------------|--|--|-------------------------------|
| 1 | Shenzhen Powerleader Technology Group Co., Ltd. | 3,582.00 | 94.27% |
| 2 | Shenzhen Powerleader Investment Holdings Co., Ltd. | 18.00 | 0.47% |
| 3 | Shenzhen Hecheng Bochuang Technology Co., Ltd. | <u>200.00</u> | <u>5.26%</u> |
| Total | | <u><u>3,800.00</u></u> | <u><u>100.00%</u></u> |

In March 2011, the shareholders meeting of Powerleader Computing passed the resolution to agree Shenzhen Powerleader Investment Holdings Co., Ltd. to transfer its 0.47% equity interest of Powerleader Computing to Shenzhen Powerleader Technology Group Co., Ltd. at the price of 200,000 yuan and agreed Shenzhen Hecheng Bochuang Technology Co., Ltd. to transfer its 5.26% equity interest of Powerleader Computing to Shenzhen Powerleader Technology Group Co., Ltd. at the price of 2.6 million yuan. After the transfer, Powerleader Technology holds 100% equity interest of Power Computer. After the equity transfer, the equity structure of Powerleader Computing was as follows:

| Number | Name of shareholders | Contribution amount (10,000 yuan) | Contribution ratio |
|---------------|--|--|-------------------------------|
| 1 | Powerleader Technology Group Co., Ltd. | <u>3,800.00</u> | <u>100.00%</u> |
| Total | | <u><u>3,800.00</u></u> | <u><u>100.00%</u></u> |

In July 2015, Powerleader Science & Technology Group Limited, the shareholders of Powerleader Computing, agreed to transfer its 10% equity interest of Powerleader Computing to Shenzhen Powerleader Cloud Computing Research Institute Limited at the price of 4.5 million yuan. After the equity transfer, the equity structure of Powerleader Computing is as follows:

| Number | Name of shareholders | Contribution amount (10,000 yuan) | Contribution ratio |
|--------------|---|---|-----------------------|
| 1 | Powerleader Technology Group Co., Ltd. | 3,420.00 | 90.00% |
| 2 | Shenzhen Powerleader Cloud Computing Research Institute Limited | 380.00 | 10.00% |
| Total | | <u>3,800.00</u> | <u>100.00%</u> |

Business scope of our group: manufacturing (operated by branches), research and development, and sales and marketing of computer software, computer hardware, peripheral equipment, computer accessories, electronic products, electrical appliances and communication products; computer system integration (contain no restricted items, monopolized commodities or special controlled commodities); import and export practices of goods and technologies (except for items prohibited by laws, administrative regulations, and decisions of the State Council. Restricted items shall be operated after acquiring relevant licenses).

II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

1. Preparation basis

Powerleader Technology plans to transfer its 100% equity interest of Shenzhen Powerleader Software Development Limited (“Powerleader Software”) to Powerleader Computing at the price of 85,000,000.00 yuan which was the net asset value of Powerleader Software on December 31, 2014. Powerleader Technology plans to inject its server businesses and assets into Powerleader Computing (the transfer procedures are not completed yet on the base date of audit) and Taiji Computer Corporation Limited (“Taiji Computer”) plans to purchase 100% equity of Powerleader Computing. The financial statement assumes that Powerleader Technology has already transferred its equity of Powerleader Software, server businesses and assets cleared in the headquarters of Powerleader Technology to Powerleader Computing in the beginning of the report. The group prepares the financial statements of combination simulation based on the business combination methods under common control.

Based on going-concern assumption and according to actual transactions and events, the simulated financial statement is prepared in accordance with stipulations in *Accounting Standards for Business Enterprises — Basic Standards* (Issued by the Order No. 33 of the Ministry of Finance and revised by the Order No. 76 of the Ministry of Finance) by the Ministry of Finance, *41 Specific Accounting Standards, Application Guidance of Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises* and other relevant stipulations (hereinafter collectively referred to “Accounting Standards for Business Enterprises”) issued and revised respectively on February 15 2006 and after, and the *Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reports* (revised in 2014) by China Securities Regulatory Commission.

In accordance with relevant stipulations in Accounting Standards for Business Enterprises, the financial accounting of the group is based on the accrual basis. Except for some financial instruments and investment real estate, the financial statement takes historical cost as the accounting basis. In the event of assets impairment, corresponding provision for assets impairment provision shall be made in accordance with relevant stipulations.

The financial information recorded in the financial statement is based on relevant agreements on the purchase agreement of Taiji Computer's purchase plan of relevant server businesses and assets of Powerleader Computing and takes actual accounting statements and relevant account books of Powerleader Computing, Powerleader Technology, Powerleader Software, Powerleader Computing (Hong Kong) Limited, the wholly-owned subsidiary of Powerleader Computing in the report period as the basis. Assuming that the business assets and liabilities related to shares to be used for shares subscription was with independent existence and going-concern since January 1, 2013, we prepare the financial statement through the following divestiture. Specific instructions of the divestiture of the financial statement are as follows:

1. The balance sheet of server businesses and assets injected into Powerleader Computing by Powerleader Technology on December 31, 2013, December 31, 2014 and December 31, 2015 is based on the original balance sheet of Powerleader Technology according to the principle of "assets and liabilities follow businesses", namely to divide current accounts, financial instruments and revenue cost based on business property, to divide inventory according to business segments, to divide investment real estate and fixed assets based on business department, to divide payroll payable of employees based on related personnel, and to divest irrelevant assets and liabilities from server businesses. Assets and liabilities of Powerleader Computing, Powerleader Software and Powerleader Computing (Hong Kong) Limited are taken as assets to be purchased, needing no divestiture.
2. Based on the original profit statement, the profit statement of server businesses and assets injected into Powerleader Computing by Powerleader Technology in 2013, 2014 and 2015 divests irrelevant revenues, costs and expenditures to server businesses and takes relevant revenues, costs and expenditures as underlying profit and loss. The businesses in Powerleader Computing, Powerleader Software and Powerleader Computing (Hong Kong) Limited are all underlying businesses, needing no divestiture.

Considering the special purpose of the financial statement of simulated combination, we only prepare the simulated combined balance sheet, simulated combined profit statements and simulated combined notes to financial statements of server businesses and relevant underlying assets in the report period when preparing the simulated combined financial statement. We only list the total amount in the column of "owner's equity belonging to the parent company" and don't distinguish various detailed items of owner's equity in the simulated combined balance sheet.

The Taiji Computer's acquisition is still to be examined and approved by the shareholders meeting of Taiji Computer and Powerleader Technology and other competent departments.

III. IMPORTANT ACCOUNTING POLICY AND ACCOUNTING ESTIMATE

Based on manufacturing and operating characteristics, the group determines specific accounting policies and accounting estimates, which is mainly reflected in provision methods of bad debt provision for receivables (Article 8, Notes III), inventory valuation methods (Article 9, Note III), depreciation of fixed assets and amortization of intangible assets (Article 12 and 13, Note III), recognition time of revenue (Article 16, Note III), etc.

See Article 20, Note III for applied key judgment when determining major accounting policies of the group.

1. Declaration on compliance with Accounting Standards for Enterprises

The Company's simulated financial statements meet the requirements of Accounting Standards for Enterprises, truthfully and completely reflecting information on its financial condition of server businesses and relevant assets on December 31, 2015, December 31, 2014 and December 31, 2013 and operating results in 2015, 2014 and 2013.

2. Accounting period

The fiscal periods are divided into annual and interim, the latter refers to a report period shorter than a whole accounting year. The accounting year starts on 1 January and ends on 31 December of Gregorian calendar.

3. Business cycle

The business cycle of the Company is 12 months.

4. Reporting currency

RMB is the currency used in the main economic environment where the domestic entities of the Company are located, and RMB is adopted as the recording currency of the Company. RMB is used to prepare the financial statements of the Company.

5. Accounting treatment of business combination

Business combination refers to a transaction or matter which combines two or more than two individual entities into one reporting entity. Business combination is divided into combination under the common control and combination not under common control.

(1) Business combination under common control

If the consideration of the combining entity is that it makes payment in cash, transfers non-cash assets or bears its debts, on the date of combining, the consideration paid by the combining entity and the owner's equity of the entity being combined are recorded at the book value. The difference between the share of the book value of the owner's equity of the entity being combined and the book value of the consideration paid shall be used to adjust the capital reserve (increase in share stock). If the capital reserve (increase in share stock) is insufficient to dilute, the retained earnings shall be adjusted. If the consideration of the combining entity is that it issues equity securities, it shall, on the date of combination, regard the share of the book value of the owner's equity of the combined entity as the initial cost of the long-term equity investment. The total book value of the stocks issued shall be regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total book value of the shares issued shall be used to adjust the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. Transaction expenses generated shall be included in the gain and loss at the time the expense is incurred. Transaction expenses generated from issuing equity securities or debt securities for business combination are included in the initial recognition amount.

In case that business combination under common control is achieved through several transactions, if several transactions are "package deal", the Company will treat them as one transaction for which the Company achieves the right of control of subsidiary; if several transactions are not "package deal", the equity investment held by the Company before it achieves the right of control of the combined entity, the recognized profit or loss between the latter of the date when the Company acquires the original equity, the date when the combining entity and the combined entity are under common control, and the combination date, other comprehensive income and other change in net assets shall write down beginning retained earnings or the current profit and loss during the period of comparative statements.

(2) Business combination not under common control

The combination costs of the acquirer and the identifiable net assets obtained by the acquirer in a business combination shall be recorded at the fair values. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains forms the acquiree as business reputation. The balance that the combination costs are less than the fair value of the identifiable net assets the acquirer obtains from the acquirer in a business combination shall be recorded into the gains and losses at the

current period. The direct correlative charges caused by the combination shall be recorded into the gains and losses. The transaction expenses for the issuance of equity securities or bonds for the business combination shall be recorded into the amount of initial accounting of the equity securities or liabilities.

In case that business combination not under common control are achieved through several transactions, if several transactions are “package deal”, the Company will treat them as one transaction for which the Company achieves the right of control of subsidiary; if several transactions are not “package deal”, the equity of the combined entity held by the combining entity before the acquisition date shall be re-accounted according to the fair value of the equity at the date of acquisition date, the differences between the fair value and its book value shall be included in the current income from investment; for the equity of the combined entity which is held before the acquisition date, if it results in the change in other owner’s equity except net profit and loss, other comprehensive income under equity method and other comprehensive income and distribution of profits (referred to “change in other owner’s equity” below), other relevant comprehensive income, change in other owner’s equity shall be transferred into the current profit and loss at the acquisition date, except other comprehensive income generated by the invested entity re-calculating the net liabilities or assets of defined benefit plan.

(3) Judgment of “package deal”

For business combination achieved through several transactions, the Company judges whether the step transactions are “package deal” according to clauses of agreements of the step transactions, equity proportion acquired at each transaction, object of achievement, form of achievement, time of achievement and the consideration. If the clauses, conditions and economic influence of each transaction meet one or more of the following conditions, the Company usually treats the step transactions as “package deal”: ① The transactions are concluded at the same time or considering the influence of each other; ② The transactions can achieve one complete business result in a whole; ③ The occurrence of one transaction depends on that of another transaction; ④ One transaction is not economic individually but it is economic considering other transactions.

6. Preparation of consolidated statements

The consolidated statements consist of those of the Company and the consolidated subsidiaries. Subsidiary is the subject controlled by the Company.

Subsidiary is consolidated from the date on which effective control over the subsidiary is exercised by the Company; subsidiary is no longer consolidated from the date when that control ceases. The subsidiary acquired by the Company under common control is consolidated from the date on which effective control over the subsidiary is exercised by the Company and in the consolidated income statement; its net interests realized before the consolidation date are listed as individual entry.

When there is any discrepancy between accounting policies adopted by subsidiaries and the Company, the statements of subsidiaries will be adjusted according to the Company’s policies upon consolidation. When subsidiary acquired through merger of enterprise not under the same controller, its financial statements will be adjusted on the basis of fair value of the recognizable net assets as of purchase day.

All significant current accounts’ balance, transaction and unrealized profit within the Group are offset in preparation of the consolidated statements. But impairment loss of relevant assets showed by internal transaction shall be recognized in full. Owners’ equity of subsidiaries and that part of the current net profit and loss not attributable to the Company is shown under shareholders’ equity and net profit in consolidated financial and current net profit and loss statements as minority interest, minority gains and losses and comprehensive income attributable to minority shareholders. Unrealized profit and loss from internal transaction for which the Company sell the assets to the subsidiary shall write off in full in retained profits attributable to the shareholders of the parent; unrealized profit and loss from internal transaction for which the subsidiary sell the assets to the Company shall write off retained profits attributable to the shareholders of the

parent and minority interest income based on the distribution proportion. Unrealized profit and loss from internal transaction for which the assets are sold between subsidiaries, shall write off the net profit attributable to the shareholders of the parent and minority interest income based on the distribution proportion.

If there is difference between the judgment of a transaction based on the Company as the accounting entity and that based on the subsidiary as the accounting entity, the transaction shall be adjusted from the point of view of the Company.

7. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits readily available for the payment of and investment holdings of short-term (within 3 months from the purchase date), highly liquid and readily convertible to known amounts of cash, with an insignificant risk of changes in value.

8. Financial instruments

(1) Recognition method for fair value of financial assets and financial liabilities

The quotation in the active market shall be used to recognize the fair value of the financial assets or financial liabilities existing in active market. If the financial instruments do not exist in the active market, the fair value shall be recognized by value appraisal techniques. During evaluation, the Company uses valuation technique supported by applicable, sufficient available data and other information in current circumstances, selects the input values consistent with the characteristics of asset or liability considered in the transaction of relevant asset and liability by market participant, and gives priority in use of observable input values as far as possible. Unobservable input values can be used if the relevant observable input values are unavailable or infeasible.

(2) Classification, recognition and accounting of financial assets

Financial assets purchased or sold in common manner shall be recognized or derecognized at the transaction date, interest generated from the transaction of the relevant asset and liability shall be accrued and recognized after the ownership is transferred on the settlement date. Financial assets are initially recognized and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, held-to-maturity investment, loans and receivables as well as held-for-sale financial assets. The initially recognized financial assets are recorded at the fair value. For the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, the relevant transaction expenses are included in the current profit and loss; and for other financial assets, the relevant transaction expenses are included in the initial recognition amount.

① Financial assets which are recorded at their fair value and the variation of which is recorded into the profits and losses of the current period

Include tradable financial assets and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss.

Tradable financial assets refer to the financial assets which comply with one of the following conditions: A. The financial assets are mainly purchased for being sold in the near future; B. The financial assets are part of identifiable financial instrument portfolio for which centralized management is carried out, and objective evidence shows that the Company will manage the portfolio for making a profit in the near future; C. The financial assets are derivative instruments, except derivative instruments designated as effective hedging instruments, the financial guarantee contract, the derivative instruments which there is no quoted price in the active market and the fair value of which cannot be reliably calculated, investment linked and which are settled through the delivery of equity instrument.

Financial assets comply with one of the following conditions can be classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss in initial recognition: A. The classification can eliminate or significantly reduce the inconformity in relevant profits or losses due to different accounting basis of financial assets; B. Official documents of risk management or investment strategy state to conduct management and assessment on financial asset portfolio or financial asset and financial liability portfolio of the financial assets based on their fair value and report to key administrators; C. Including one or several mixed instruments in derivative financial instruments, unless derivative financial instrument embedment will not significantly change the cash flow of mixed instruments or the embedded derivative financial instruments shall obviously not be divested from relevant mixed instruments.

For tradable financial assets which are recorded at their fair value and the variation of which is recorded into the profits and losses of the current period, subsequent accounting is carried out at the fair value and the profit or loss generated from the change in the fair value as well as the dividends and interest related to the financial assets are included in the current profit and loss.

② *The investments which will be held to their maturity*

The term “held-to-maturity investment” refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the enterprise holds for a definite purpose or the enterprise is able to hold until its maturity. The investment with due date over 12 month but to be due within 12 months (including 12 months) as of the date of the balance sheet that is held to its due date shall be listed as the non-current assets to be due within 1 year in the balance sheet; the investment to be due within 12 months (including 12 months) shall be listed as other current assets.

Held-to-maturity investment is subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

Effective interest rate method refers to the method by which the amortized cost as well as the interest income or expenditure in previous periods are calculated with effective interest rate of the financial asset or liability (including financial asset or liability portfolio). Effective interest rate refers to the interest rate by which the future cash flow of financial asset or liability is discounted as the current book value during the estimated duration or applicable short duration.

When calculating effective interest rate, the Company will estimate the future cash flow according to all contract terms of the financial asset or liability (taking no account of future credit loss) and take account of various charges, transaction expenses, reduced prices or premium as part of effective interest rate paid or received by various parties to financial asset or liability contract.

③ *Loans and receivables*

Loans and receivables refer to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo-amount is fixed or determinable. The loans and receivables of the Company include notes receivables.

Loans and receivables shall be subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

④ *Financial assets available for sale*

Financial assets available for sale include the non-derivative financial assets for sale designated at the initial recognition and the financial assets not classified into other catalogues. The financial assets for sale to be sold within 12 months as of the date of the balance sheet shall be listed as the non-current assets to be due within 1 year in the balance sheet.

For financial assets available for sale, subsequent accounting is carried out at the fair value, the profit or loss generated from the change in the fair value, except that impairment loss and balance of exchange related to foreign currency financial asset and amortized cost are included in the current profit and loss, are included in other comprehensive income and included in the current profit and loss when the financial asset is derecognized. However, the equity instrument investment available for sale for which there is no quoted price in the active market, and the fair value cannot be reliably calculated is recorded at its cost.

The interest achieved and cash dividends declared by the invested unit during the period when the financial asset is held are included in income from investment.

(3) *Financial assets impairment*

Apart from financial assets recorded by fair value and whose changes included in current profit or loss, the Group conducts, on balance sheet date, check up over the carrying value of the financial assets. If there is objective evidence that a particular financial asset is impaired, provision for impairment is made.

Objective evidence that a financial asset is impaired refers to matters that after initial recognition of the financial asset the actual financial assets incurred, the estimated future cash flows affected, and the Group can reliably measure the effect.

The Company makes an independent impairment test on the financial asset with significant single amount; for the financial asset without significant single amount, an independent impairment test is carried out for the financial asset or an impairment test is carried out for the financial asset portfolio with similar credit risk. If the independent impairment test shows no impairment loss, the financial asset (including the financial asset with significant single amount or without significant single amount) shall be included in the financial asset portfolio for another impairment test. If the independent impairment test shows impairment loss, the financial asset shall not be included in the e financial asset portfolio for another impairment test.

① *Impairment of held-to-maturity investment, loans and accounts receivables*

For the financial asset recorded on the basis of costs or post-amortization costs, the book value is written down to present value of estimated future cash flow, the written-down amount is recognized as impairment loss and included in the current profit and loss. If there is any objective evidence showing that the value of such financial asset has been recovered and is objectively related to the subsequent events that occur after the losses were recognized, the originally recognized impairment losses are reversed, the book value of the financial asset after the impairment losses is reversed shall not more than the amortized cost at the reversing date if the impairment provision is not accrued.

② *Impairment of available-for-sale financial assets*

The objective evidences showing that available-for-sale financial assets have been impaired include severe or non-transient depreciation of the fair value of equity instrument investment. The Company makes an independent impairment test on available-for-sale equity instrument investment on the date of balance sheet date, if the fair value of such equity instrument investment is lower than 50% (including 50%) of its initial cost of investment on the date of balance sheet date or has been lower than its initial cost of investment for more than 1 year (including 1 year), such equity instrument investment is impaired; if the fair value of such equity

instrument investment is lower than 20% (including 20%) but not to 50% of its initial cost of investment on the date of balance sheet date, the Company will comprehensively consider other relevant factors, including the rate of price fluctuation, etc., to judge whether such equity instrument investment is impaired. The Company calculates the initial cost of investment of available-for-sale equity instrument investment with weighted average method.

When available-for-sale financial assets recorded at the fair value are impaired, the accumulating losses which are originally recognized in stockholders' equity and generated from the decreased fair value are reversed. For the recognized impairment losses of available-for-sale debt instrument investment, if there is any objective evidence showing that the value of such debt instrument investment has been recovered and is objectively related to the subsequent events that occur after the losses were recognized, the originally recognized impairment losses are reversed and included in the current profit and loss. For the recognized impairment losses of available-for-sale debt instrument investment, the recovered fair value is directly included in stockholders' equity.

When available-for-sale financial asset recorded at the cost is impaired, the difference between its book value and the present value discounted by the future cash flow with market return of similar financial assets is recognized as impairment loss and included in the current profit and loss. The recognized impairment loss will not be reversed in the future periods.

(4) Recognition and accounting method for transfer of financial assets

The financial asset meeting one of the following conditions are derecognized: ① The contractual right to receive the cash flow of the financial asset is terminated; ② The financial asset is transferred and almost all risks and rewards generated from the ownership of the financial asset have been transferred to the transferee; ③ The financial asset is transferred, the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset but has given up the control to the financial asset.

If the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset and has not given up the control to the financial asset, the relevant financial asset and corresponding financial liability shall be recognized to the extent that the transferred financial asset continues to be involved in. The extent that the transferred financial asset continues to be involved in refers to the risk level faced by the Company caused by the change in the value of financial asset.

If the financial asset transferred as a whole meets the conditions of derecognition, the difference between the book value of financial asset and the sum of the consideration received because of transferring the financial asset and the change in fair value originally included in other comprehensive income shall be included in the current profit and loss.

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped be apportioned according to their respective relative fair value. And the difference between the amounts of the two items, namely the sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in other comprehensive income which is corresponding to the portion whose recognition has been stopped and the book value of the portion whose recognition has been stopped, shall be included into the profits and losses of the current period.

(5) Classification and accounting of financial liabilities

Financial liabilities are classified into the following categories when they are initially recognized: Financial liabilities recorded at fair value with their changes recorded in current profit and loss, and other financial liabilities. For the financial liabilities recorded by fair value with their changes recorded in current profit and loss, the relevant transaction expenses are directly included in the current profits and losses, for other financial liabilities, the relevant transaction expenses are included initial recognition amount.

① The financial liabilities recorded at fair value with their changes recorded in current profit and loss

The conditions by which the financial liabilities are classified as trading financial liabilities and designated as the financial liabilities recorded at fair value with their changes recorded in current profit and loss at initial recognition are same as those by which the financial assets are classified as trading financial assets and designated as the financial assets recorded at fair value with their changes recorded in current profit and loss at initial recognition.

The Company makes subsequent accounting on the financial liabilities which are recorded at their fair values and of which the variation is included in the current profits and losses, the profit or loss generated from the variation of fair value and the dividends and interest expenses related to such financial liabilities are included in the current profit and loss.

② Other financial liabilities

For derivative financial liabilities which there is no quoted price in the active market and the fair value of which cannot be reliably calculated, equity instrument linked and which are settled through the delivery of equity instrument, the Company makes subsequent accounting at the costs. For other financial liabilities, the Company makes subsequent accounting at the amortized costs with effective interest rate method and the profit or loss generated from derecognition or amortization are included in the current profit and loss.

③ Guarantee contract

Guarantee contract which is not designated as the financial liabilities recorded at fair value with their changes recorded in current profit and loss is initially recognized at fair value. The Company makes subsequent accounting at the higher between the amount recognized according to Accounting Standards for Business Enterprises No. 13 — Contingencies after initial recognition and the difference between the initially recognized amount and the accumulative amortized amount according to Accounting Standards for Business Enterprises No. 14 — Revenues.

(6) Derecognition of financial liabilities

Only if the whole or part of the current obligation of the financial liabilities of the Company is relieved, shall derecognize the financial liabilities or part of it. The Company (debtor) signs an agreement with creditor to assume new financial liabilities and replace the existing financial liabilities and the contract terms of new financial liabilities differ in essence from those of existing financial liabilities, the existing financial liabilities are derecognized and the new financial liabilities are recognized.

For the financial liabilities are derecognized in whole or in part, the difference between the book value of the portion whose recognition has been stopped and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) is included in the current profit and loss.

(7) Derivative instruments and embedded derivative instruments

The Company conducts initial record based on fair values on the signing date of relevant agreements and follow-up record based on fair values. The fair values of derivative instruments with their changes are recorded in current profits and losses.

For mixed instruments containing embedded derivative instruments, if the financial assets or financial liabilities recorded based on fair values with the changes recorded in current profits and losses are not classified, there are no close relations between embedded derivative instruments and the master contract in economic characteristics and risks, the conditions are the same with embedded derivative instruments, and the separate instrument conforms to the definition of derivative instruments, embedded derivative instruments can be divested from the mixed instruments and treated as single financial derivative instruments. If separate accounting on embedded derivative instruments cannot made upon the acquisition date or the follow-up balance sheet date, the overall mixed instruments are classified as financial assets or liabilities which are recorded based on fair values with changes recorded in current profits and losses.

(8) Writing off financial assets and financial liabilities

The Company has legal right to write off the recognized financial assets and financial liabilities and the right is executable in current, and the Company plans to carry out net settlement or realize financial assets and settle financial liabilities, the net amount after writing off financial assets and financial liabilities shall be disclosed in the balance sheet. In addition to, financial assets and financial liabilities are disclosed in the balance sheet respectively and writing-off is not permitted.

(9) Equity instruments

Equity instrument refers to the contract which can verify possessing the remaining equity in the assets after deducting all liabilities. For equity instrument, the differences between the consideration received at the issuing date and the transaction expenses are included in the owner's equity.

The Company distributes equity instrument to the holder with various methods (excluding stock dividends) and writes down the owner's equity. Issuing (including refunding), buying-back, sale or writing off equity instruments are treated as change in equity and change in fair value of equity instrument is not recognized. The consideration and transaction expenses paid by the Company to buy back its own equity instrument (including treasury stock) write down the owner's equity and no financial assets are recognized.

9. The accounts receivables

Accounts receivables include accounts receivable and other accounts receivables.

(1) Recognition criteria of bad debt provision

The Company conducts checks on the book value of accounts receivables on the balance sheet date and bad debt provisions on accounts receivables impairment with the following objective evidences: ① The debtor has severe financial distress; ② The debtor violates contract terms (such as breach of contract or overdue in paying interests or principles); ③ The debtor is likely to go bankrupt or conduct other financial restructuring; ④ Other objective evidences indicating impairment in accounts receivables.

*(2) Counting and drawing methods of bad debt provisions**① Bad debt provision for individually significant accounts receivable*

The Company makes an independent impairment test on the accounts receivable with significant single amount. When there are objective evidences which show that the Company cannot receive the accounts receivable, provision for bad debts shall be withdrew.

Judgment basis of the individually significant accounts receivable: More than 10 million Yuan.

Method of individual provision for bad debts of the individually significant accounts receivable: The Company makes an independent impairment test on the accounts receivable with significant single amount, and provision for bad debts shall be withdrawn on the basis of the balance between the current values of the predicted future cash flow lower than book value. Upon independent individually significant accounts receivable impairment test, the accounts receivable with significant single amounts has not been impaired, it shall be included in receivables portfolio with similar credit risks for impairment test. Otherwise, it shall not be included in receivables portfolio with similar credit risks for impairment test.

② Accounts receivable for which bad debt provisions are made on the credit risk portfolio basis

A. Determination basis of credit risk features portfolio

For the accounts receivable with in significant single amount and accounts receivable with significant single amount but no impairment in independent test, the Company categorizes financial assets according to the similarity and relevance of credit risk features and makes bad debt provisions for accounts receivables based on the actual loss ratio of accounts receivables with similar credit risk features and combing with the current condition.

Determination basis of different portfolios:

| Items | Determination basis of portfolio |
|-------------------------|---|
| Account age portfolio | Accounts receivables with similar account ages and credit risk features are divided into one group |
| Risk-free portfolio | Accounts receivables with similar credit risk features including employees' loans, guarantee deposits and imprest |
| Related party portfolio | Related units in the combination scope of the parent company Powerleader Group |

B. Withdrawal methods of bad debt provisions determined by credit risk features portfolio

| Items | Withdrawal methods |
|--|---|
| Account age portfolio | Account age analysis method |
| Related party portfolio, risk-free portfolio | Non-withdrawal bad debt provision. If there are objective evidences indicating occurred impairment, determine the impairment loss and make bad debt provisions. |

a. In the combination, account age method is adopted to make combined proportion for bad debt provisions

| Account age | Provision proportion for accounts receivable (%) | Provision proportion for other accounts receivable (%) |
|---|---|---|
| Within 3 months (including 3 months, similarly hereinafter) | 0 | 0 |
| 3 months–1 year | 5 | 5 |
| 1–2 years | 20 | 20 |
| 2–3 years | 40 | 40 |
| 3–4 years | 60 | 60 |
| 4–5 years | 80 | 80 |
| More than 5 years | 100 | 100 |

③ *Accounts receivable with an insignificant single amount but for which the bad debt provision is made individually*

The Company makes an independent impairment test on the accounts receivable with insignificant single amount but there are objective evidences which show that the Company cannot receive the accounts receivable according to the original clauses, if objective evidences show that the accounts receivable with insignificant single amount have not been impaired, and impairment loss shall be confirmed and provision for bad debts shall be withdrawn on the basis of the balance between the current values of the predicted future cash flow lower than book value.

(3) Reversal of bad debt provision

If objective evidences indicate that the value of accounts receivables are restored and is related to occurred events after loss determination, the originally determined impairment loss shall be reversed and recorded in current profits and losses. However, the book value after the reversal doesn't exceed the amortized cost of accounts receivables on the reversal date under the condition of assumed non-withdrawal impairment provisions.

(4) Transfer of accounts receivables

For transferring accounts receivables to financial institutions in the way of no right of recourse, the relevant after-tax balance after deducting the book value of the transferred accounts receivables shall be recorded in current profits and losses.

10. Inventory

(1) Category of Inventory

Inventories include raw materials, outgoing inventories, finished goods, packaging materials and low priced and easily worn articles, etc.

(2) Evaluation method for acquiring and outgoing inventories

Inventory is evaluated at its actual costs, including purchase costs, processing cost and other costs. The cost of raw materials of servers in dispatch or purchase shall be calculated with the method of weighted mean at the end of a month while the cost of finished goods shall be calculated with the method of individual pricing.

(3) Recognition of net realizable value and withdrawal method of depreciation reserves for inventories

The net realizable value refers to in the daily business activity the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. The Company shall confirm the net realizable value of inventories on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventories and the effects of events occurring after the date of the balance sheet.

On the date of balance sheet date, the inventories are recorded at the lower of the costs and the net realizable value. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made and be included in the current profits and losses. The provision for the loss on decline in value of inventories is usually made based on the deference between the cost of individual inventory item and its net realizable value.

After the provision for the loss on decline in value of inventories is made, if the influence factors against which the value of inventory is written down have been disappeared and the net realizable value is higher than its book value, the accrued provision for the loss on decline in value of inventories shall be reversed and included in the current profit and loss.

(4) Inventory system for inventories: Perpetual inventory system***(5) Amortization methods of low priced and easily worn articles***

Low priced and easily worn articles are amortized with the method of one-off amortization.

11. Assets determined to be held for sale and discontinuing operation

The non-current asset or asset portfolio synchronously satisfying the following conditions shall be determined as the assets to be held for sale: (I) The non-current asset or asset portfolio must be immediately sold in accordance with the common and conventional clauses for sale of this kind of assets under the current conditions; (II) The Company has made the resolutions for disposal of the non-current asset or asset portfolio; (III) The Company has signed the irrevocable transfer agreement with the assignee; (IV) The transfer will be accomplished within 1 year.

Non-current assets complying with the conditions of held-for-sale (excluding financial assets and deferred income tax assets) are recorded at the lower of the book value and the fair value minus disposal expenses, if the fair value minus disposal expenses is lower than the original book value, impairment loss shall be recognized.

Non-current assets held for sale and assets and liabilities in disposal portfolio are classified as current assets and liabilities.

Discontinuing operation refers to the constituent part which complies with one of the following conditions, has been disposed or classified as held-for-sale and is individually operated or for which the financial statements are individually prepared: (I) The constituent part represents an independent main business or in a main business region; (II) The constituent part is part of disposal plan of an independent main business or in a main business region; (III) The constituent part is only a subsidiary acquired for resale.

12. Long-term equity investment

Long-term equity investment includes: long-term equity investment of the Company in subsidiary; long-term equity investment of the Company in cooperative enterprises and affiliated business.

Subsidiaries refer to the entity which is controlled by the Company. Cooperative enterprises refer to the entity for which the Company implements common control through an independent entity and has the right to jointly arrange its net assets through legal form, contract term and other facts or conditions. Affiliated business refers to the invested unit for which the Company has a significant influence on its financial and operating decision.

Investment in subsidiaries is disclosed with cost method in the Company's financial statement and adjusted with equity method when the combined financial statements are prepared; investment in cooperative enterprises and affiliated business are accounted with equity method.

(1) Determination of initial investment cost

Long-term equity investments formed by business combination: Long-term equity investment formed by the business combination under common control, the investment cost shall be the share of book value of owner's equity acquired at the combination date; Long-term equity investment formed by the business combination not under common control, the investment cost shall be the combined cost.

Besides the long-term equity investment formed by the business combination: the initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid; The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

(2) Subsequent accounting and the profit and loss determination

The price of a long-term equity investment accounted by employing the cost method shall be included at its initial investment cost. The dividends or profits declared to distribute by the invested entity shall be recognized as the current investment income.

For a long-term equity investment accounted with equity method, if the initial cost is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment is recorded as the cost of the long-term equity investment. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

When adopting equity method for accounting long-term equity investment, the Company shall recognize the investment profits or losses according to the attributable share of the net profits or losses of the invested unit. The net profits or losses of the invested unit shall be recognized to the extent that the book value of long-term equity investment and other long term equity attributable to the net investment of the invested unit in essence are written down to zero, however, if the Company has the obligation to undertake extra losses which comply with the recognition conditions of estimated liabilities according to the contingency standard, investment losses shall be recognized and accounted as estimated liabilities. Where any change is made to the owner's equity other than the net profits and losses, other comprehensive income and profit distribution of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in capital reserve. For the profit or cash dividends from the invested unit, the book value of long-term equity investment shall be correspondingly written down based on the part attributable to the Company. The unrealized profit or loss from the internal transaction with the invested unit shall be offset by the share attributable to the Company calculated as per the proportion and then the investment income shall be confirmed based on it. As to the unrealized loss from the internal transaction between the Company and the invested unit, if it belongs to the assets impairment loss, it shall not be offset.

(3) Recognition criterion for control, common control and significant influence

The control over the invested unit refer to that the Company enjoys variable return through participating the related activities of the invested unit and have the ability to use the right to the invested unit to influence its return.

In case of the common control over a certain arrangement in accordance with the related provisions, only when the related activities of this arrangement must be agreed by the Company and other participants sharing the control power before the decision is made, can it be deemed as the common control.

In case of power of participation in the decision-making regarding the financial and operation policy of the invested unit, if it cannot control or jointly control with other participants the stipulation of these policies, it shall be deemed that they have significant influence on the invested unit.

13. Fixed assets*(1) Recognition of fixed assets*

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful life of over one accounting year.

(2) Depreciation methods of various fixed assets

Based on cost and taking the impact of estimated retirement obligation in to consideration, the Company conducts initial record on fixed assets. From the subsequent month when the fixed assets reach the estimated serviceable condition, the method of straight-line depreciation is adopted in the service life. The service life, estimated net residual value and yearly depreciation of various fixed assets are as follows:

| Type | Depreciation Life life (year) | Residual Value Rate (%) | Annual Depreciation Rate (%) |
|-----------------------------|----------------------------------|----------------------------|------------------------------------|
| Machinery and equipment | 5-10 | 5 | 9.50-19.00 |
| Transport equipment | 10 | 5 | 9.50 |
| Office equipment and others | 3-5 | 5 | 19.00-31.67 |

Net residual value refers to an estimated condition that the estimated service life of the assumed fixed assets expires and is in the end of its service life. The Company gets the amount after deducting the estimated disposal expenses in the fixed assets.

(3) Determination basis and valuation methods of fixed assets under finance lease

Finance lease refers to the lease which has actually transferred all the risks and rewards related to the ownership of assets, with its ownership eventually already transferred or not. The policy in line with proprietary fixed assets is adopted for the depreciation of fixed assets under finance lease. For leasing assets with assured ownership in the end of the lease term, the withdrawal depreciation method within its service life is adopted, while for leasing assets with uncertain ownership in the end of the lease term, the withdrawal depreciation in the shorter term of the lease term and service life is adopted.

(4) Other statements

For subsequent expenditures related to fixed assets, if they are related to the economic benefit of fixed assets and are likely to inflow and their cost can be reliably recorded, they are recorded as the cost of fixed assets and the book value of the replaced part shall be derecognized. Other subsequent expenditures are recorded in current profits and losses.

The disposal consideration of the sale, transfer, scrapping or damage of fixed assets and the balance after deducting the book value and relevant taxes and dues are recorded in current profits and losses.

The Company conducts rechecks on the service life, estimated net residual value and depreciation methods at least in the end of a year. If any changes found, it will be disposed as accounting estimate change.

14. Intangible asset**(1) Intangible asset**

Intangible asset refers to identifiable non-monetary assets without physical substance owned or controlled by the Group.

An intangible asset shall be recorded initially at cost. Expenditure related to intangible asset, if the relevant economic benefit may flow into the Company and its cost can be reliably calculated, is included in the cost of the intangible asset. Otherwise, the expenditure is included in the current profit and loss.

Land use rights acquired are usually accounted as intangible assets. For self-constructed plants and other building, the expenditure related to land use rights and construction cost are accounted as intangible asset and fixed assets respectively. For purchased houses and buildings, the relevant prices are amortized among land use rights and construction cost, if the relevant prices cannot be amortized; they are treated as fixed assets.

For intangible assets with limited service life, the original value after deducting the accruing amounts of estimated net residual value and withdrawal impairment provisions is amortized with straight-line method within the estimated service life from the assets are available for use. The intangible assets with uncertain service life shall not be amortized.

At the end of report period, the Company shall check the service life and the amortization method of intangible assets with limited service life and carry out accounting estimate change in case that a change happens. In addition to, the Company shall check the service life of intangible assets with uncertain service life, if there are evidences showing that the intangible assets can bring economic benefit for the Company within the foreseeable period, the Company shall estimate the service life and carry out amortization according to the amortization policy for intangible assets with limited service life.

The amortization life of various intangible assets is as follows:

| Type | Amortization life |
|----------------------------------|--|
| Purchased software | Lower life among estimated service life, beneficial life in the contract, and effective life stipulated by laws. |
| Independently developed software | 3 years |

(2) R&D expenditures

Based on the property and the uncertainty of R&D activities to form intangible assets, the internal R&D expenditures are divided into the research expenditures and the development expenditures.

Expenditures on designated investigations and evaluations to research servers and in the selection stage are research expenditures and recorded in current profits and losses; while before mass production, expenditures of relevant designs of final applications of servers and in the testing stage are development expenditures and will be capitalized if satisfying the following conditions simultaneously:

- ① The software development has been fully justified by technical teams on the technical feasibility in application or sales;
- ② The Company management have approved the plan and budget of software development with the intention to accomplish and use or sell the intangible assets;
- ③ Research and analysis of market survey in the earlier stage show that the products have the capability of market promotion;
- ④ With sufficient technical and financial support for development activities and subsequent mass production;
- ⑤ Development expenditures can be collected and calculated reliably.

Development expenditures dissatisfying the above conditions are recorded in current profits and losses. Development expenditures recorded in profits and losses in earlier period will not be reconfirmed as assets in subsequent period. Capitalized development expenditures are listed as development expenditures in the balance sheet and transferred to intangible assets upon the date when items reach their intended uses.

15. Non-current non-financial assets impairment

As to fixed assets, construction-in-progress, intangible assets with finite service life, investment real estate calculated in cost model and long-term equity investment on subsidiaries, cooperative enterprises, affiliated business and other non-current non-financial assets, the Company judges whether they show the signs of depreciation on the date of balance sheet date. If they show the signs of depreciation, their recoverable amount shall be evaluated and the depreciation test shall be carried out. As to the goodwill, and the intangible assets with uncertain service life and the intangible assets not reaching up to the scheduled available state, no matter whether it shows the depreciation or not, they shall be annually tested for depreciation.

As to the fixed assets, intangible assets, investment in the real estate is recorded at cost and the long-term equity investment, if they show the depreciation, the depreciation test shall be carried out. In case that the depreciation test results show the amount recoverable of the assets is lower than the book value, The provision for impairment shall be accrued as per the balance and be recorded into the depreciation loss. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. The provision for impairment of the assets shall be calculated and confirmed based on the single asset; if it is difficult to estimate the amount recoverable of a single asset, the assets portfolio in which the asset is located shall be used to determine the amount recoverable of the assets portfolio. The assets portfolio is the min. assets combination that can separately produce the cash in-flow.

For goodwill independently disclosed in the financial statements, when impairment test is carried out, the book value of goodwill will be amortized among the asset units or asset unit portfolio which is expected to benefit from the synergistic effect of business combination. If the result of impairment test suggests the recoverable

amount of the asset units or asset unit portfolio including the amortized goodwill is lower than their book value, the corresponding impairment loss shall be recognized. Impairment loss shall write off the book value amortized to the asset units or asset unit portfolio at first, and then write off the book value of other assets according to the proportion of the book value of other assets except goodwill in the asset units or asset unit portfolio.

The above impairment loss shall not be reversed in case that the value is recovered in the future periods after recognition.

16. Employee compensation

Employee compensation refers to rewards for hiring employees and compensations for severing labor relation by the Company, including short-term compensation, welfare after demission, demission welfare and other long-term employee welfare, etc.

(1) Short-term compensation

Short-term compensation includes salary, bonus, allowance and subsidy, welfare expense, medical insurance premiums, industrial injury insurance premium, birth insurance premium, housing fund, labor union and educational fund, short-term compensated absences, short-term profit sharing plan, and non-monetary welfare. In the accounting period of the employee providing the service to the Company, the short-term compensation actually occurring herefrom shall be determined as the liabilities and included into the current profit or loss or the assets-related cost. Non-monetary welfare will be recorded based on the fair value.

(2) Welfare after demission

Welfare after demission is divided into defined drawing plan and defined benefit plan. Defined drawing plan refers to welfare after demission that the Company pays fixed charges to independent fund and does not assume future payment obligation; defined benefit plan refers to welfare after demission rather than defined drawing plan. In the report period, the Company mainly provides the following welfare after demission.

Basic endowment insurance

The Company pays basic endowment insurance organized and implemented by local labor and social security departments for employees, such welfare after demission is defined drawing plan. The Company pays endowment insurance premium every month to local management institution of basic endowment insurance based on the cardinal sum and proportion of basic endowment insurance. After retirement, local labor and social security departments are responsible for paying basic endowment insurance to the retired employees. During the periods when the employees provide service, the Company recognizes the amount payable calculated according to the above regulations as a liability and includes in the current profit and loss or the cost of relevant asset.

Corporation pension plan

The Company builds the cooperation pension plan in accordance with relevant policies in the *National Enterprise Annuity System*, and such welfare after demission is defined drawing plan. Employees can participate in the corporation pension plan on their own wills. The Company pays pension plan according to a certain proportion of the gross payroll of employees, and relevant expenditures are included in the current profit and loss or the cost of relevant asset.

(3) Demission welfare

The Company gives compensation to relieve the labor relation with the employees before the labor contract expires or encourage the employees to voluntarily receive cut-down. The liabilities for the employee compensation arising from the demission welfare shall be determined on the following date and recorded into the current profit or loss, whichever is earlier: 1) When the Company cannot withdraw the demission welfare provided due to the cancellation of the labor relation plan or job displacement suggestion unilaterally; 2) When the Company confirms the cost or expenses related to the reorganization involving the payment of the demission welfare.

Early retirement welfare: The Company provides employees who accept early retirement with early retirement welfare. Early retirement welfare refers to salary and social insurance charges paid for employees who don't reach the retirement age stipulated by the state but are willing to quit their jobs after the approval of the Company management. The Company pays the early retirement welfare to early retired employees from the day of early retirement to the normal retirement age. For early retirement welfare, the Company conducts accounting treatment according to demission welfare. When satisfying the relevant determination conditions of demission welfare, the paid salary and social insurance premium for early retired employees from the early retirement date to normal retirement date are recognized as liabilities and recorded in current profits and losses. Differences caused by changes in actuarial assumptions of early retirement and welfare standard adjustment are recorded in the current profits and loss.

The estimated payable early retirement welfare within 1 year since the balance sheet date are listed as current liabilities.

(4) Other long-term employee welfare

Other long-term employee welfare refers to all employee welfares except for short-term compensation, long-term disability welfare, long-term profit sharing plan and long-term reward plan, etc. For long-term employee welfare satisfying conditions of defined contribution plans, accounting treatment will be conducted in accordance with relevant stipulations of defined contribution plans. For long-term employee welfare satisfying conditions of defined benefit plans, the Company determines and records the net liabilities or net assets of other long-term employee welfare in accordance with relevant stipulations of defined benefit plans. Employee compensation costs (including current service cost, former service cost, net interest and rerecorded changes) related to the plan are included in the current profit and loss or the cost of relevant asset.

17. Revenue

The amount received shall be determined as per the fair value of the contracted price received or receivable in selling the commodities or providing labor service by this company in the routine operation activities. The income shall be listed as the net amount after deduction of sales allowance and sales return.

(1) Sales of goods

The operating revenue is recognized when the significant risks and rewards of product ownership have been transferred to the buyer, the Company maintains neither managerial right usually associated with ownership nor effective control over products sold, it is probable that the economic benefits will flow to the Company, and relevant revenue and costs can be calculated reliably.

Revenue recognition after products reception: Revenue recognition after that the products have been delivered, signature receipt from the named consignee by clients is received and the cost of delivered goods can be reliably recorded.

Revenue recognition after products acceptance: Revenue recognition after that the products have been delivered and have operated normally after installation and debugging, both parties have signed the acceptance receipt and the cost of delivered goods can be reliably recorded.

(2) Rendering of services

When the results of rendering of services can be reliably estimated, the service revenue will be recognized upon completion percentage method on the date of balance sheet date. The completion schedule of service transaction is determined according to the proportion of occurred labor cost in estimated total cost.

That the results of rendering of services can be reliably estimated refers to meeting the following conditions at the same time: ① The amount of revenue can be reliably calculated; ② relevant economic benefits can flow into the Company; ③ The project schedule can be reliably recognized; ④ The cost occurred and to be occurred can be reliably calculated.

If the results of rendering of services cannot be reliably estimated, the service revenue will be recognized at the costs of services which have occurred and are expected to be compensated and included in the current expenses. If the occurred costs of services are expected not to be compensated, the service revenue will not be recognized.

When the contract or agreement signed between the Company and client covers sales of goods and rendering of services, if sales of goods and rendering of services can be distinguished and accounted individually, sales of goods and rendering of services are accounted respectively. If sales of goods and rendering of services cannot be distinguished because of the characteristics of business or cannot be calculated even can be distinguished, the entire contract are treated as sales of goods.

(3) Transfer of asset use rights

Interest income is calculated with effective interest rate and recognized on the date when other party uses cash and cash equivalents of the Company.

The income from operating lease is recognized with straight-line method during the lease term.

18. Government grants

Government grants refer to monetary and non-monetary assets from the government, excluding the capital of the government as an owner. Government grants are divided into asset-related government grants and income-related government grants.

Asset-related government grants refer to government grants for the Company to purchase and construct or other forms to form into long-term assets, while income-related government grants refer to other government grants except for asset-related government grants.

For government grants satisfying the attached conditions and can be received in the Company, recognition will be made. Monetary government grants are calculated according to the received or receivable amount, while non-monetary grants are calculated according to their fair values. If the fair value cannot be acquired reliably, they will be calculated according to nominal amount. Government calculated according to nominal amount will be directly recorded in the current profit and loss.

Asset-related government grants are recognized as deferred income and taken to current profit or loss through equal division in the service life of relevant assets. Income-related government grants are applied to reimbursement of related costs or losses in subsequent periods are recognized as deferred income and taken to current profit or loss for the period when the related costs are recognized. Government grants applied to reimbursement of related costs or losses already incurred are directly recognized in current profit or loss.

When recognized government grants need to be returned and there are relevant deferred income balances, write off relevant deferred income balances and calculate the exceeding part in the current profit and loss. If there is no relevant deferred income, calculate it directly in the current profit and loss.

19. Deferred tax assets and deferred tax liabilities

Deferred tax assets or deferred tax liabilities are calculated based on the difference between the carrying amounts of the assets or liabilities and their tax bases (temporary differences). As to the deductible losses that can be used to deduct the taxable income in the following years in accordance with the provisions of the tax law, the corresponding deferred tax assets shall be recognized. As to the temporary differences occurring in the initial recognition of the goodwill, the corresponding deferred income tax liability shall not be recognized. As to the temporary differences formed in the initial recognition of the assets or liability occurring in the non-business combination transaction not affecting the accounting profit or the taxable income (or deductible loss), the corresponding deferred income tax assets and the deferred income tax liability shall not be recognized. On the balance sheet day, the deferred income tax assets and deferred income tax liabilities shall be accounted at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

For the taxable temporary differences related to the subsidiaries, affiliated business and cooperative enterprises, deferred income tax liabilities shall be recognized. If the investing enterprise can control the time of the reverse of temporary differences and the temporary differences are unlikely to be reversed in the excepted future, it shall not be recognized. For the deductible temporary difference related to the subsidiaries, affiliated business and cooperative enterprises, when it is likely to be reversed in the excepted future and can be used to write off the taxable temporary differences, the deferred tax assets shall be recognized.

The deferred tax assets shall be recognized no more than the taxable income used to write off the deductible temporary difference, the deductible losses and tax credits. On the date of balance sheet date, the Company checks the book value of deferred income tax assets, if the Company will not likely be able to obtain sufficient taxable income to deduct the benefit from deferred income tax assets, the book value of deferred income tax assets is written down. When the Company will likely be able to obtain sufficient taxable income, the written down amount shall be reversed.

When the following conditions are met at the same time, the net amount after writing off deferred income tax assets and deferred income tax liabilities is disclosed individually:

- Deferred income tax assets and deferred income tax liabilities are related to income tax imposed by the same tax collection and management department on the same subject of taxation;
- In the Company, the subject of taxation has the legal right to settle the current income tax assets and income tax liabilities at the net amount.

20. Changes in significant accounting policies and accounting estimates***(1) Changes in significant accounting policies***

None.

(2) Changes in significant accounting estimates

None.

21. Critical assumptions and uncertain factors used for significant accounting judgment and estimation

During adopting accounting policies, because of the uncertainties in business activities, the Company needs to make a judgment, estimation and assumption on the book value of items in financial statements which cannot be accurately calculated. Such judgment, estimation and assumption are based on the historical experiences of the management in the past, considering other relevant factors. Such judgment, estimation and assumption will affect the report amount of revenue, expense, assets and liabilities as well as the disclosure of contingent liabilities on the date of balance sheet date. However, the uncertainties in such estimation may result in significant adjustment of the book value of assets or liabilities which will be affected in the future.

The Company regularly checks the above judgment, estimation and assumption on the base of sustainable operation, so the change in accounting estimation only affects the period when the change happens, and the influence amount is recognized in the period when the change happens; if the change affects not only the period when the change happens but also future periods, the influence amount is recognized in the period when the change happens and future periods.

On the date of balance sheet date, the Company needs to make a judgment, estimation and assumption on items in financial statement in the following significant aspects:

(1) Provision for bad debt

According to the accounting policies of accounts receivable, the Company accounts bad debt loss with allowance method. Accounts receivable is impaired based on the evaluation on the recoverability of accounts receivable. The management needs to make a judgment and estimation to determine whether accounts receivable are impaired. The difference between the actual result and original estimation will result in the book value of accounts receivable and the accrued or reversed provision for bad debt during the period when the estimation is changed.

(2) Provision for inventory depreciation

According to accounting policies of inventory, the Company accounts at the cost and net realizable value, whichever is the lower, for inventory with the cost higher than the net realizable value and old-fashioned and unsalable inventory, the provision for the loss on decline in value of inventory shall be make. The loss on decline in value of inventory and net realizable value are based on the evaluation on the vendibility of inventory and its net realizable value. The management shall make a judgment and estimation to determine the loss on decline in value of inventory on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventory and the effects of events occurring after the date of the balance sheet. The difference between the actual result and original estimation will result in the book value of inventory and the accrued or reversed provision for inventory during the period when the estimation is changed.

(3) Depreciation and amortization

After considering the residual value of investment real estate, fixed assets and intangible assets, the Company makes provision for depreciation and amortization with straight-line method within the service life. The Company regularly checks the service life to determine depreciation and amortization expenses recognized in each report period. The service life is determined by the Company based on previous experience of similar assets and combined with expected technology. If there is a significant change in previous estimation, depreciation and amortization expenses will be adjusted in future periods.

(4) Deferred income tax assets

When the taxable profit is sufficient to deduct the loss, the Company will recognize deferred income tax assets based on all unutilized tax loss, for which the management of the Company need to make a good deal of judgment to estimate the time and amount of future taxable profit and combine tax planning strategy to determine the amount of deferred income tax assets to be recognized.

(5) Income tax

During the normal business activities, there are certain uncertainties for the final tax administration and calculation of part transactions. Whether part items can be disbursed before tax needs to be approved by the competent tax administration institution. If the final recognized results of such tax administration differ from initial estimated amount, the difference will influence the current income tax and deferred income tax during the final recognition period.

(6) Estimated liabilities

Based on contract terms, existing knowledge and historical experience, the Company makes corresponding provision for product quality guarantee, estimated contract loss, liquidated damages caused by delay in delivery and other estimations. When such contingencies form a current obligation and implementing the current obligation may cause economic benefit to flow out the Company, the Company will recognize an estimated liability at the best estimate of the expenditure required to settle the current obligation. Estimated liabilities are recognized and recorded mainly depending on the judgment of the management. During the judgment, the Company needs to evaluate the risk, uncertainty, the time value of money and other factors related to such contingencies.

The Company will estimate liabilities for sold goods and guarantee to clients. As for the estimated liabilities, the loan repayment ability and industrial loss ratio of clients of the Company is considered, while previous repayment condition may not reflect the future repayment condition. Any increase or decrease in such provision will affect the profit and loss of the coming years.

IV. TAXES

1. Corporate income tax

Taxation subjects of corporate income tax are as follows:

| Name of taxation subjects | Income Tax rate | | 2013 | Tax preference |
|---|-----------------|------|-------|--|
| | 2015 | 2014 | | |
| Powerleader Computing | 15% | 15% | 15% | Passed the review of high-tech enterprises in September 2014 with the preference of 15% of income tax and 50% of R&D expenditures of additional deductions before the corporate income tax. The preference period is from 2014 to 2016. |
| Powerleader Software | 15% | 15% | 12.5% | Enjoy the preference of 15% of income tax and 50% of R&D expenditures of additional deductions before the corporate income tax for high-tech enterprises from 2011. Enjoy the tax preference of “2-year exemption and 3-year half payment” of software and IC design enterprises. Enjoy “2-year exemption and 3-year half payment” from 2009, tax exemption in 2010, and half payment from 2011 to 2013. Passed the review of high-tech enterprises in September 2014, and the preference period is from 2014 to 2016. |
| Powerleader Computing (Hong Kong) Limited | 16.5% | | | Applicable for Hong Kong profits tax. |

2. VAT and other taxes

| Tax type | Taxation basis | Specific tax rate |
|---------------------------------------|--|-------------------|
| VAT | Taxable added value (Payable tax is calculated through multiplying taxable sales volume by applicable tax rate and then deducting the current allowable input tax) | 17% |
| Business tax | Taxable business volume | 5% |
| City maintenance and construction tax | Tax amount of paid VAT, business tax and consumption tax | 7% |
| Extra charges of education funds | Tax amount of paid VAT, business tax and consumption tax | 3% |
| Extra charges of local education | Tax amount of paid VAT, business tax and consumption tax | 2% |

Refund of VAT

In accordance with stipulations of Taxation on Value-added Tax Policies for Software Products (CS [2011] No. 100) and the announcement of Management Methods of Drawback Policy of Value-added Tax for Software Products in Shenzhen ([2011] No. 9), with various rating certificates granted by the Bureau of Technology and Information in Shenzhen, Powerleader Software is a development enterprise of software products. After levying the value-added tax at a tax ratio of 17%, the preferential drawback tax policy is adopted for the part where the actual tax burden of the value-added tax exceeds 3%.

V. SIMULATED COMBINED NOTES TO FINANCIAL STATEMENTS

Unless specially pointed out, the following disclosure items (including major items disclosure of the financial statement of the Company), the monetary unit is RMB.

1. Monetary capital

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Cash | 233,924.38 | 70,145.13 | 210,328.24 |
| Cash in bank | <u>18,659,730.69</u> | <u>18,384,703.84</u> | <u>55,322,453.41</u> |
| Other monetary funds | | | |
| Total | <u><u>18,893,655.07</u></u> | <u><u>18,454,848.97</u></u> | <u><u>55,532,781.65</u></u> |
| Including: overseas amount | <u><u>318,126.77</u></u> | | |

Note: Monetary capital of Powerleader Computing and Powerleader Software are included in servers. Compared with December 31, 2013, the capital balance on December 31, 2014 reduced by 66.77%, which was due to repaying the short-term loans of 40 million to the bank.

2. Notes receivable*(1) Types of notes receivable*

| Type | 2015/12/31 | 2014/12/31 | 2013/12/31 |
|------------------------|----------------------------|-----------------------------|-----------------------------|
| Bank's acceptance bill | 4,306,422.00 | 8,358,962.40 | 5,920,388.78 |
| Trade acceptance | <u>1,756,673.02</u> | <u>19,413,909.00</u> | <u>13,930,449.03</u> |
| Total | <u><u>6,063,095.02</u></u> | <u><u>27,772,871.40</u></u> | <u><u>19,850,837.81</u></u> |

Note: Compared with December 31, 2014, the balance of notes receivable on December 31, 2015 reduced by 78.17%, which was mainly due to the acceptance maturity of notes receivable.

(2) Condition of pledged notes receivable

None.

(3) *Notes receivable has already endorsed or discounted at the end but not yet expired on the date of balance sheet date*

| Type | Derecognized amount by 31 December 2015 | Non-derecognized amount |
|------------------------|---|-------------------------|
| Bank's acceptance bill | 200,000.00 | |
| Trade acceptance | 38,833,155.00 | |
| Total | 39,033,155.00 | |

(4) *Notes transferred to accounts receivable because drawer of the notes fails to execute the contract or agreement*

None.

3. Accounts receivable

(1) *Disclosure of accounts receivable on classification*

| Type | Book balance | | 31 December 2015 Provision for bad debt | | Book value |
|--|-----------------------|----------------|--|-----------------------------|-----------------------|
| | Amount | Proportion (%) | Amount | Provision on proportion (%) | |
| Bad debt provision for individually significant accounts receivable | 66,620,212.00 | 18.04 | 645,078.02 | 0.97 | 65,975,133.98 |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 302,672,172.01 | 81.96 | 7,695,055.00 | 2.54 | 294,977,117.01 |
| Account age portfolio | 265,033,914.68 | 71.77 | 7,695,055.00 | 2.90 | 257,338,859.68 |
| Related party portfolio | 37,638,257.33 | 10.19 | | | 37,638,257.33 |
| Bad debt provision for individually insignificant accounts receivable | | | | | |
| Total | 369,292,384.01 | 100.00 | 8,340,133.02 | | 360,952,250.99 |

| Type | Book balance | | 31 December 2014 Provision for bad debt | | Book value |
|--|-----------------------|----------------|--|--------------------------|-----------------------|
| | Amount | Proportion (%) | Amount | Provision proportion (%) | |
| Bad debt provision for individually significant accounts receivable | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 212,100,012.06 | 100.00 | 206,907,406.88 | 2.45 | 206,907,406.88 |
| Aging portfolio | 207,259,533.51 | 97.72 | 5,192,605.18 | 2.51 | 202,066,928.33 |
| Related party Portfolio | 4,840,478.55 | 2.28 | | | 4,840,478.55 |
| Bad debt provision for individually insignificant accounts receivable | | | | | |
| Total | 212,100,012.06 | 100.00 | 5,192,605.18 | | 206,907,406.88 |

| Type | 31 December 2013 | | | | Book value |
|--|-----------------------|----------------|------------------------|--------------------------|-----------------------|
| | Book balance | | Provision for bad debt | | |
| | Amount | Proportion (%) | Amount | Provision proportion (%) | |
| Bad debt provision for individually significant accounts receivable | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 127,189,480.16 | 100.00 | 6,243,706.08 | 4.91 | 120,945,774.08 |
| Account age portfolio | 125,942,500.31 | 99.02 | 6,243,706.08 | 4.96 | 119,698,794.23 |
| Related party portfolio | 1,246,979.85 | 0.98 | | | 1,246,979.85 |
| Bad debt provision for individually insignificant accounts receivable | | | | | |
| Total | 127,189,480.16 | 100.00 | 6,243,706.08 | | 120,945,774.08 |

1) *Bad debt provision for individually significant accounts receivable at the end of report period*

| Name of debtors | Book balance | Provision for bad debt | Account age | Provision | Withdrawal reason |
|---|----------------------|------------------------|--------------------|----------------|---|
| | | | | proportion (%) | |
| ChinaCache Communication Technology Co., Ltd. | 2,195,600.00 | | Within 3 months | | Signed a long-term strategic cooperation agreement with |
| ChinaCache Communication Technology Co., Ltd. | 64,341,422.00 | 643,414.22 | 3 months to 1 year | 1.00 | low recovery risk |
| ChinaCache Communication Technology Co., Ltd. | 83,190.00 | 1,663.80 | 1–2 years | 2.00 | |
| Total | 66,620,212.00 | 645,078.02 | | | |

2) *In the portfolio, withdraw the accounts receivables with bad debt provisions according to account analysis*

| Account age | 31 December 2015 | | |
|--------------------------------------|-----------------------|------------------------|--------------------------|
| | Accounts receivable | Provision for bad debt | Provision proportion (%) |
| Within 3 months (including 3 months) | 215,114,272.11 | | |
| 3 months–1 year | 35,737,602.25 | 1,786,880.12 | 5.00 |
| 1–2 years | 6,737,761.86 | 1,347,552.37 | 20.00 |
| 2–3 years | 4,102,630.10 | 1,641,052.04 | 40.00 |
| 3–4 years | 757,400.21 | 454,440.12 | 60.00 |
| 4–5 years | 595,589.00 | 476,471.20 | 80.00 |
| Over 5 years | 1,988,659.15 | 1,988,659.15 | 100.00 |
| Total | 265,033,914.68 | 7,695,055.00 | — |

| Account age | 31 December 2014 | | |
|--------------------------------------|-----------------------|------------------------|--------------------------|
| | Accounts receivable | Provision for bad debt | Provision proportion (%) |
| Within 3 months (including 3 months) | 177,566,280.95 | | |
| 3 months–1 year | 18,211,311.20 | 910,565.57 | 5.00 |
| 1–2 years | 8,039,601.30 | 1,607,920.26 | 20.00 |
| 2–3 years | 859,891.71 | 343,956.68 | 40.00 |
| 3–4 years | 595,589.20 | 357,353.52 | 60.00 |
| 4–5 years | 70,250.00 | 56,200.00 | 80.00 |
| Over 5 years | 1,916,609.15 | 1,916,609.15 | 100.00 |
| Total | 207,259,533.51 | 5,192,605.18 | — |

| Account age | 31 December 2013 | | |
|--------------------------------------|-----------------------|------------------------|--------------------------|
| | Accounts receivable | Provision for bad debt | Provision proportion (%) |
| Within 3 months (including 3 months) | 90,292,931.76 | | |
| 3 months–1 year | 26,769,772.20 | 1,338,488.61 | 5.00 |
| 1–2 years | 3,123,120.40 | 624,624.08 | 20.00 |
| 2–3 years | 1,076,669.20 | 430,667.68 | 40.00 |
| 3–4 years | 1,414,587.60 | 848,752.56 | 60.00 |
| 4–5 years | 1,321,230.00 | 1,056,984.00 | 80.00 |
| Over 5 years | 1,944,189.15 | 1,944,189.15 | 100.00 |
| Total | 125,942,500.31 | 6,243,706.08 | — |

(2) The allowance, collected or canceled bad debt provision of the current period

The amount of bad debt provision in 2015 was 3,147,527.84 yuan; the amount of collected bad debt or canceled bad debt provision was 0 yuan; the write-off amount was 0 yuan.

The amount of bad debt provision in 2014 was 1,610,382.62 yuan; the amount of collected bad debt or canceled bad debt provision was 0 yuan; the write-off amount was 2,661,483.52 yuan.

The amount of bad debt provision in 2013 was –929,382.75 yuan; the amount of collected bad debt or canceled bad debt provision was 0 yuan; the write-off amount was 0 yuan.

(3) Details of writing off other receivables

| Items | Write-off amount as at 31 December 2015 | Write-off amount as at 31 December 2014 | Write-off amount as at 31 December 2013 |
|--|---|---|---|
| Other receivables actually written off | | 2,661,483.52 | |

Of which, details of writing off significant receivables:

| Name of company | Nature of other receivable | Write-off amount | Reason | Write-off procedure | Amount from associated transaction |
|---|----------------------------|------------------|---|--|------------------------------------|
| Jiangsu Sky Dragon Technology Co., Ltd. | | 1,005,137.00 | Failed recovery due to product quality problems | Examined and approved by the group president | No |
| Shanghai Qianshi Digital Technology Development Co., Ltd. | | 970,983.60 | Failed recovery due to product quality problems | Examined and approved by the group president | No |
| Others | | 685,362.92 | Failed recovery due to product quality problems | Examined and approved by the group president | No |

(4) Information for top 5 ending balance of accounts receivable sorted by the borrowers

The total amount of the top 5 ending balance of accounts receivable on December 31, 2015 was 150,888,063.41, accounting for 40.86% of the ending balance of accounts receivable.

(5) Accounts receivable derecognized because of transfer of financial assets

None.

(6) Amount of assets or liabilities for which accounts receivable is transferred but continue involve in

None.

4. Other accounts receivable

(1) Categorized disclosure of other accounts receivable

| Type | 31 December 2015 | | | | Book value |
|--|-----------------------|---------------|------------------------|-----------|-----------------------|
| | Book balance | Proportion | Provision for bad debt | Provision | |
| | Amount | (%) | Amount | (%) | |
| Bad debt provision for individually significant accounts receivable | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 174,016,840.18 | 100.00 | 54,728.00 | 0.03 | 173,962,112.18 |
| Account age portfolio | 982,326.36 | 0.56 | 54,728.00 | 5.57 | 927,598.36 |
| Related party portfolio | 169,330,024.50 | 97.31 | | | 169,330,024.50 |
| Risk-free portfolio | 3,704,489.32 | 2.13 | | | 3,704,489.32 |
| Bad debt provision for individually insignificant accounts receivable | | | | | |
| Total | 174,016,840.18 | 100.00 | 54,728.00 | | 173,962,112.18 |

| Type | 31 December 2014 | | | | Book value |
|--|-----------------------|----------------|------------------------|--------------------------|-----------------------|
| | Book balance | | Provision for bad debt | | |
| | Amount | Proportion (%) | Amount | Provision proportion (%) | |
| Bad debt provision for individually significant accounts receivable | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 162,135,532.34 | 100.00 | 38,312.62 | 0.02 | 162,097,219.72 |
| Account age portfolio | 182,880.00 | 0.11 | 38,312.62 | 20.95 | 144,567.38 |
| Related party portfolio | 157,571,647.28 | 97.19 | | | 157,571,647.28 |
| Risk-free portfolio | 4,381,005.06 | 2.70 | | | 4,381,005.06 |
| Bad debt provision for individually insignificant accounts receivable | | | | | |
| Total | 162,135,532.34 | 100.00 | 38,312.62 | | 162,097,219.72 |

| Type | 31 December 2013 | | | | Book value |
|--|-----------------------|----------------|------------------------|--------------------------|-----------------------|
| | Book balance | | Provision for bad debt | | |
| | Amount | Proportion (%) | Amount | Provision proportion (%) | |
| Bad debt provision for individually significant accounts receivable | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 143,816,808.84 | 100.00 | 40,276.30 | 0.03 | 143,776,532.54 |
| Account age portfolio | 82,880.00 | 0.06 | 40,276.30 | 48.60 | 42,603.70 |
| Related party portfolio | 138,960,767.29 | 96.62 | | | 138,960,767.29 |
| Risk-free portfolio | 4,773,161.55 | 3.32 | | | 4,773,161.55 |
| Bad debt provision for individually insignificant accounts receivable | — | | | | |
| Total | 143,816,808.84 | 100.00 | 40,276.30 | 0.03 | 143,776,532.54 |

(2) The allowance, collected bad debt or canceled bad debt provision of the current period

The amount of bad debt provision in 2015 was 16,415.38 yuan; the amount of collected bad debt or canceled bad debt provision was 0 yuan; the write-off amount was 0 yuan.

The amount of bad debt provision in 2014 was -1,963.68 yuan; the amount of collected bad debt or canceled bad debt provision was 0 yuan; the write-off amount was 0 yuan.

The amount of bad debt provision in 2013 was 40,276.30 yuan; the amount of collected bad debt or canceled bad debt provision was 0 yuan; the write-off amount was 0 yuan.

(3) Details of writing off other receivables

None.

(4) Other accounts receivable categorized by nature

| Nature of accounts | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|--|------------------------------|------------------------------|------------------------------|
| Employees' loans, guarantee deposit, imprest | 3,704,489.32 | 3,917,916.18 | 3,768,141.04 |
| Related party transactions | 169,330,024.50 | 157,571,647.28 | 138,960,767.29 |
| Allowance receivable | 453,687.14 | 463,088.88 | 1,005,020.51 |
| Others | <u>528,639.22</u> | <u>182,880.00</u> | <u>82,880.00</u> |
| Total | <u><u>174,016,840.18</u></u> | <u><u>162,135,532.34</u></u> | <u><u>143,816,808.84</u></u> |

(5) Information for top 5 ending balance of accounts receivable sorted by the borrowers

| Name of companies | Nature of accounts | Ending balance | Account age | Proportion in the total amount of other accounts receivable (%) | Ending balance of bad debt provision |
|---|----------------------------|------------------------------|---------------|--|--|
| Powerleader Science & Technology Group Limited | Related party transactions | 145,034,519.71 | Within 1 year | 83.35 | |
| Shenzhen Baotong Zhiyuan Technology Limited | Related party transactions | 14,634,501.79 | Within 1 year | 8.41 | |
| Powerleader Science & Technology (HK) Limited | Related party transactions | 5,802,470.45 | Within 1 year | 3.33 | |
| Shenzhen Powerleader Communication Technology Limited | Related party transactions | 3,560,000.00 | 2-3 years | 2.05 | |
| Shenzhen Subituo Network Technology Co., Ltd. | Related party transactions | <u>298,532.55</u> | Within 1 year | <u>0.17</u> | |
| Total | | <u><u>169,330,024.50</u></u> | | <u><u>97.31</u></u> | |

(6) Accounts receivable involving in government grants

After conduct business accounting on the rebates of value-added tax and actual tax rebates, the amount of allowance receivable up to December 31, 2015 was 453,687.14 yuan.

(7) Other accounts receivable derecognized because of transfer of financial assets

None.

(8) Amount of assets or liabilities for which accounts receivable is transferred but continue involve in

None.

(9) Other instructions

None.

5. Prepayment

(1) Prepayment listed according on age

| Account age | 31 December 2015 | | 31 December 2014 | | 31 December 2013 | |
|---------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|
| | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) |
| Within 1 year | 6,843,780.36 | 21.05 | 16,068,085.58 | 48.99 | 11,653,557.64 | 41.15 |
| 1–2 years | 8,943,860.82 | 27.51 | 8,135,951.50 | 24.81 | 12,745,694.90 | 45.01 |
| 2–3 years | 8,135,951.50 | 25.02 | 4,927,950.12 | 15.03 | 3,831,947.06 | 13.53 |
| Over 3 years | 8,591,520.94 | 26.42 | 3,663,570.82 | 11.17 | 88,033.76 | 0.31 |
| Total | 32,515,113.62 | 100.00 | 32,795,558.02 | 100.00 | 28,319,233.36 | 100.00 |

Large amount of prepayment over 1 year

| 31 December 2015 | 31 December 2015 | 31 December 2014 | 31 December 2013 | Reason |
|--|------------------|------------------|------------------|--|
| Guangzhou Geyuan Technology Development Co., Ltd. | 11,754,422.77 | 4,093,599.12 | 6,343,979.77 | Require suppliers to prepare goods with preferential guaranteed supply to the needing materials of the Company |
| Guangzhou Shanglian Software Technology Co., Ltd. | 1,866,941.06 | 2,226,421.06 | 2,482,831.06 | Require suppliers to prepare goods with preferential guaranteed supply to the needing materials of the Company |
| Dongguan Touxin Information Technology Co., Ltd. | 2,283,508.10 | 2,283,508.10 | 2,283,508.10 | Require suppliers to prepare goods with preferential guaranteed supply to the needing materials of the Company |
| Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd. | 3,726,158.29 | 1,823,244.30 | 4,628,621.56 | Require suppliers to prepare goods with preferential guaranteed supply to the needing materials of the Company |

(2) Conditions of the top 5 amount of prepayment

The total amount of the top 5 prepayment up to December 31, 2015 was 20,473,568.22, accounting for 62.97% of the ending amount of prepayment.

6. Inventories

(1) Classification of inventories

| Items | 31 December 2015 | | |
|------------------------------|-----------------------|----------------------------|-----------------------|
| | Book balance | Provision for depreciation | Book value |
| Outgoing goods | 15,145,688.12 | | 15,145,688.12 |
| Materials in transit | 1,931,916.16 | | 1,931,916.16 |
| Raw materials | 111,844,548.13 | 4,286,712.66 | 107,557,835.47 |
| Finished goods | 11,335,611.24 | 13,211.33 | 11,322,399.91 |
| Work in process — outsourced | 163,212.48 | | 163,212.48 |
| Production cost | <u>7,045,468.44</u> | | <u>7,045,468.44</u> |
| Total | <u>147,466,444.57</u> | <u>4,299,923.99</u> | <u>143,166,520.58</u> |

| Item | 31 December 2014 | | |
|------------------------------|----------------------|----------------------------|----------------------|
| | Book balance | Provision for depreciation | Book value |
| Outgoing goods | 8,465,883.86 | | 8,465,883.86 |
| Materials in transit | 125,538.45 | | 125,538.45 |
| Raw materials | 68,747,416.81 | 789,527.83 | 67,957,888.98 |
| Finished goods | 9,534,109.17 | | 9,534,109.17 |
| Work in process — outsourced | 232,193.36 | | 232,193.36 |
| Production cost | <u>11,714,397.69</u> | | <u>11,714,397.69</u> |
| Total | <u>98,819,539.34</u> | <u>789,527.83</u> | <u>98,030,011.51</u> |

| Item | 31 December 2013 | | |
|------------------------------|----------------------|----------------------------|----------------------|
| | Book balance | Provision for depreciation | Book value |
| Outgoing goods | 9,017,252.73 | | 9,017,252.73 |
| Materials in transit | 1,050,552.22 | | 1,050,552.22 |
| Raw materials | 49,320,242.98 | 182,039.63 | 49,138,203.35 |
| Finished goods | 1,604,279.46 | | 1,604,279.46 |
| Work in process — outsourced | 165,687.25 | | 165,687.25 |
| Production cost | <u>4,393,879.26</u> | | <u>4,393,879.26</u> |
| Total | <u>65,551,893.90</u> | <u>182,039.63</u> | <u>65,369,854.27</u> |

Note: Compared with December 31, 2013, the inventory balance on December 31, 2014 increased by 49.96%, while compared with December 31, 2014, the inventory balance on December 31, 2015 increased by 46.04%, which was mainly because of the increase in business volume and purchase of raw materials.

(2) Provision for depreciation of inventory

| Item | 31 December 2014 | Increase in the current period | | Decrease in the current period | | 31 December 2015 |
|---------------|--------------------------|-----------------------------------|-------|-----------------------------------|-------|----------------------------|
| | | Provision | Other | Reversal/ write-off | Other | |
| Raw materials | <u>789,527.83</u> | <u>3,510,396.16</u> | | | | <u>4,299,923.99</u> |
| Total | <u><u>789,527.83</u></u> | <u><u>3,510,396.16</u></u> | | | | <u><u>4,299,923.99</u></u> |

| Item | 31 December 2013 | Increase in the current period | | Decrease in the current period | | 31 December 2014 |
|---------------|--------------------------|-----------------------------------|-------|-----------------------------------|-------|--------------------------|
| | | Provision | Other | Reversal/ write-off | Other | |
| Raw materials | <u>182,039.63</u> | <u>607,488.20</u> | | | | <u>789,527.83</u> |
| Total | <u><u>182,039.63</u></u> | <u><u>607,488.20</u></u> | | | | <u><u>789,527.83</u></u> |

| Item | 31 December 2012 | Increase in the current period | | Decrease in the current period | | 31 December 2013 |
|---------------|--------------------------|-----------------------------------|-------|-----------------------------------|-------|--------------------------|
| | | Provision | Other | Reversal/ write-off | Other | |
| Raw materials | <u>617,608.08</u> | <u>176,810.12</u> | | <u>612,378.57</u> | | <u>182,039.63</u> |
| Total | <u><u>617,608.08</u></u> | <u><u>176,810.12</u></u> | | <u><u>612,378.57</u></u> | | <u><u>182,039.63</u></u> |

(3) Withdrawal and recovering reasons for provision for depreciation of inventory

| Item | Basis to recognize net realizable value | Withdrawal and recovering reasons for provision for depreciation of inventory in the current period | |
|---------------|---|---|--|
| | | | |
| Raw materials | Market price and inventory age | External sales | |

(4) Capitalized amount of borrowing costs contained in the ending balance of inventory

None.

(5) Completed but non-settled capital generated by construction contract

None.

7. Other current assets

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|--------------------------|---------------------|---------------------|---------------------|
| Prepaid tax | | 6,846,918.23 | 3,568,730.16 |
| Rent | 686,514.14 | 100,725.00 | 77,705.77 |
| Property management fees | | 28,318.39 | 27,425.33 |
| Decoration expenses | | 81,800.00 | 1,160.72 |
| Total | 686,514.14 | 7,057,761.62 | 3,675,021.98 |

Note: Compared with December 31, 2013, the balance of other current assets on December 31, 2014 increased by 92.05%, which was mainly because of the increased prepaid tax, while being compared with December 31, 2014, the balance of other current assets on December 31, 2015 decreased by 90.27%, which was mainly because of the decreased prepaid tax.

8. Fixed assets

| Items | Machinery equipment | Means of transport | Office equipment and Other | Total |
|---|------------------------|-----------------------|----------------------------------|---------------|
| I. Original book value | | | | |
| 1. Amount on 31 December 2014 | 12,311,155.97 | 1,247,419.83 | 17,268,753.08 | 30,827,328.88 |
| 2. Increased amount in the current period | 833,175.25 | 499,080.00 | 4,517,047.97 | 5,849,303.22 |
| (1) Purchase | 833,175.25 | 499,080.00 | 4,517,047.97 | 5,849,303.22 |
| 3. Decreased amount in the current period | 6,210,966.97 | | 8,288,217.60 | 14,499,184.57 |
| (1) Disposal or scrapping | 5,095,621.56 | | 5,200,163.95 | 10,295,785.51 |
| (2) Other | 1,115,345.41 | | 3,088,053.65 | 4,203,399.06 |
| 4. Balance on 31 December 2015 | 6,933,364.25 | 1,746,499.83 | 13,497,583.45 | 22,177,447.53 |
| II. Accumulated depreciation | | | | |
| 1. Amount on 31 December 2014 | 8,078,289.38 | 704,618.42 | 9,170,511.24 | 17,953,419.04 |
| 2. Increased amount in the current period | 946,281.68 | 448,708.02 | 2,977,496.42 | 4,372,486.12 |
| (1) Withdrawing | 946,281.68 | 448,708.02 | 2,977,496.42 | 4,372,486.12 |
| 3. Decreased amount in the current period | 4,926,946.22 | | 5,665,156.12 | 10,592,102.34 |
| (1) Disposal or scrapping | 4,483,889.56 | | 4,721,830.36 | 9,205,719.92 |
| (2) Other | 443,056.66 | | 943,325.76 | 1,386,382.42 |
| 4. Balance on 31 December 2015 | 4,097,624.84 | 1,153,326.44 | 6,482,851.54 | 11,733,802.82 |
| III. Depreciation provision | | | | |
| 1. Initial balance | | | | |
| 2. Increased amount in the current period | | | | |
| 3. Decreased amount in the current period | | | | |
| 4. Ending balance | | | | |
| IV. Book value | | | | |
| 1. Book value on 31 December 2015 | 2,835,739.41 | 593,173.39 | 7,014,731.91 | 10,443,644.71 |
| 2. Book value on 31 December 2014 | 4,232,866.59 | 542,801.41 | 8,098,241.84 | 12,873,909.84 |

| Items | Machinery equipment | Means of transport | Office equipment and Other | Total |
|---|------------------------|-----------------------|----------------------------------|---------------|
| I. Original book value | | | | |
| 1. Amount on 31 December 2015 | 12,259,897.52 | 1,247,419.83 | 14,226,166.83 | 27,733,484.18 |
| 2. Increased amount in the current period | 51,258.45 | | 3,204,681.03 | 3,255,939.48 |
| (1) Purchase | 51,258.45 | | 3,204,681.03 | 3,255,939.48 |
| 3. Decreased amount in the current period | | | 162,094.78 | 162,094.78 |
| (1) Disposal or scrapping | | | 162,094.78 | 162,094.78 |
| 4. Balance on 31 December 2014 | 12,311,155.97 | 1,247,419.83 | 17,268,753.08 | 30,827,328.88 |
| II. Accumulated depreciation | | | | |
| 1. Amount on 31 December 2013 | 7,029,409.00 | 626,560.22 | 7,281,046.02 | 14,937,015.24 |
| 2. Increased amount in the current period | 1,048,880.38 | 78,058.20 | 2,042,141.84 | 3,169,080.42 |
| (1) Withdrawing | 1,048,880.38 | 78,058.20 | 2,042,141.84 | 3,169,080.42 |
| 3. Decreased amount in the current period | | | 152,676.62 | 152,676.62 |
| (1) Disposal or scrapping | | | 152,676.62 | 152,676.62 |
| 4. Balance on 31 December 2014 | 8,078,289.38 | 704,618.42 | 9,170,511.24 | 17,953,419.04 |
| III. Depreciation provision | | | | |
| 1. Initial balance | | | | |
| 2. Increased amount in the current period | | | | |
| 3. Decreased amount in the current period | | | | |
| 4. Ending balance | | | | |
| IV. Book value | | | | |
| 1. Book value on 31 December 2014 | 4,232,866.59 | 542,801.41 | 8,098,241.84 | 12,873,909.84 |
| 2. Book value on 31 December 2013 | 5,230,488.52 | 620,859.61 | 6,945,120.81 | 12,796,468.94 |

| Items | Machinery equipment | Means of transport | Office equipment and Other | Total |
|---|------------------------|-----------------------|----------------------------------|---------------|
| I. Original book value | | | | |
| 1. Balance on 31 December 2012 | 12,124,120.55 | 1,967,119.83 | 12,740,888.13 | 26,832,128.51 |
| 2. Increased amount in the current period | 494,358.68 | | 1,817,179.13 | 2,311,537.81 |
| (1) Purchase | 494,358.68 | | 1,817,179.13 | 2,311,537.81 |
| 3. Decreased amount in the current period | 358,581.71 | 719,700.00 | 331,900.43 | 1,410,182.14 |
| (1) Disposal or scrapping | 358,581.71 | 719,700.00 | 331,900.43 | 1,410,182.14 |
| 4. Balance on 31 December 2013 | 12,259,897.52 | 1,247,419.83 | 14,226,166.83 | 27,733,484.18 |
| II. Accumulated depreciation | | | | |
| 1. Balance on 31 December 2012 | 6,096,077.84 | 1,182,013.04 | 5,942,728.04 | 13,220,818.92 |
| 2. Increased amount in the current period | 1,019,785.61 | 128,262.18 | 1,634,682.08 | 2,782,729.87 |
| (1) Withdrawing | 1,019,785.61 | 128,262.18 | 1,634,682.08 | 2,782,729.87 |
| 3. Decreased amount in the current period | 86,454.45 | 683,715.00 | 296,364.10 | 1,066,533.55 |
| (1) Disposal or scrapping | 86,454.45 | 683,715.00 | 296,364.10 | 1,066,533.55 |
| 4. Balance on 2013/12/31 | 7,029,409.00 | 626,560.22 | 7,281,046.02 | 14,937,015.24 |
| III. Depreciation provision | | | | |
| 1. Balance on 31 December 2012 | | | | |
| 2. Increased amount in the current period | | | | |
| 3. Decreased amount in the current period | | | | |
| 4. Ending balance at 31 December 2013 | | | | |
| IV. Book value | | | | |
| 1. Book value on 31 December 2013 | 5,230,488.52 | 620,859.61 | 6,945,120.81 | 12,796,468.94 |
| 2. Book value on 31 December 2012 | 6,028,042.71 | 785,106.79 | 6,798,160.09 | 13,611,309.59 |

(1) The depreciation amount of fixed assets in 2015 was 4,372,486.12 yuan (2014: 3,169,080.42 yuan, 2013: 2,782,729.87 yuan).

(2) *Fixed assets with limited ownership*

None.

(3) *Temporarily-idle fixed assets*

None.

(4) *Rented fixed assets through finance lease*

None.

(5) *Lent fixed assets through operating lease*

None.

9. Development expenditures

| Items | 31 December 2014 | Increase in the current period Internal research expenditure | Decrease in the current period | | 31 December 2015 |
|--|----------------------|---|---------------------------------------|---|----------------------|
| | | | Recognized as intangible assets | Transfer to current profit and loss | |
| Research expenditures | | | | | |
| Development expenditures | 21,124,616.31 | 33,942,387.40 | 12,121,054.97 | | 42,945,948.74 |
| Including: | | | | | |
| Customized reinforced channel-4 server (6U-400) | 7,313,199.44 | 4,807,855.53 | 12,121,054.97 | | |
| Channel-8 server | 5,938,909.25 | 6,316,787.48 | | | 12,255,696.73 |
| High-end channel-4 server | 5,524,566.75 | 6,168,731.28 | | | 11,693,298.03 |
| Double-channel server in the next generation | 2,347,940.87 | 5,510,086.80 | | | 7,858,027.67 |
| High performance computing server | | 5,044,665.54 | | | 5,044,665.54 |
| Storage server | | 1,261,166.39 | | | 1,261,166.39 |
| Powerleader CDN | | 1,409,053.21 | | | 1,409,053.21 |
| Domestic server system of Powerleader | | 1,643,895.44 | | | 1,643,895.44 |
| Desk cloud of Powerleader | | 939,368.14 | | | 939,368.14 |
| Double-control redundancy storage server | | 840,777.59 | | | 840,777.59 |
| Total | <u>21,124,616.31</u> | <u>33,942,387.40</u> | <u>12,121,054.97</u> | | <u>42,945,948.74</u> |

APPENDIX II

FINANCIAL INFORMATION OF THE SERVER AND SOFTWARE BUSINESSES

| Items | 31 December 2013 | Increase in the current period | Decrease in the current period | 31 December 2014 |
|---|----------------------|-----------------------------------|---------------------------------------|----------------------|
| | | Internal research expenditure | Recognized as intangible assets | |
| Research expenditures | | | | |
| Development expenditures | 37,043,811.51 | 23,963,530.65 | 39,882,725.85 | 21,124,616.31 |
| Including: | | | | |
| High performance fault-tolerant channel-4 server | 10,548,913.03 | | 10,548,913.03 | |
| Customized reinforced channel-4 server (5U-600) | | 2,437,733.15 | 2,437,733.15 | |
| Customized reinforced channel-4 server (6U-400) | | 7,313,199.44 | | 7,313,199.44 |
| Mass storage server | 17,781,576.91 | 401,181.19 | 18,182,758.10 | |
| High performance fault-tolerant channel-2 server | 8,713,321.57 | | 8,713,321.57 | |
| Channel-8 server | | 5,938,909.25 | | 5,938,909.25 |
| High-end channel-4 server | | 5,524,566.75 | | 5,524,566.75 |
| Double-channel server in the next generation | | 2,347,940.87 | | 2,347,940.87 |
| Total | 37,043,811.51 | 23,963,530.65 | 39,882,725.85 | 21,124,616.31 |

| Items | 31 December 2012 | Increase in the current period | Decrease in the current period | 31 December 2013 |
|---|----------------------|-----------------------------------|---------------------------------------|----------------------|
| | | Internal research expenditure | Recognized as intangible assets | |
| Research expenditures | | | | |
| Development expenditures | 16,800,606.80 | 22,499,436.68 | 2,256,231.97 | 37,043,811.51 |
| Including: | | | | |
| High performance fault-tolerant channel-4 server | 5,963,621.27 | 4,585,291.76 | | 10,548,913.03 |
| Mass storage server | 8,423,996.56 | 9,357,580.35 | | 17,781,576.91 |
| High performance fault-tolerant channel-2 server | 156,757.00 | 8,556,564.57 | | 8,713,321.57 |
| Game cloud center | 2,256,231.97 | | 2,256,231.97 | |
| Total | 16,800,606.80 | 22,499,436.68 | 2,256,231.97 | 37,043,811.51 |

Note: Compared with December 31, 2013, the development expenditure balance on December 31, 2014 decreased by 42.97%, which was mainly because of the large amount of transfer to intangible assets, while being compared with December 31, 2014, the development expenditure balance on December 31, 2015 increased by 103.30%, which was mainly because that the development expenditure was not yet capitalized.

10. Intangible assets

| Items | Software | Non-patent technology | Total |
|---|--------------|--------------------------|----------------|
| I. Original book value | | | |
| 1. Balance on 31 December 2014 | 3,317,161.29 | 87,316,960.73 | 90,634,122.02 |
| 2. Increased amount in the current period | 2,682,065.69 | 12,121,054.97 | 14,803,120.66 |
| (1) Purchase | 2,682,065.69 | | 2,682,065.69 |
| (2) Transfer of development expenditure | | 12,121,054.97 | 12,121,054.97 |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2015 | 5,999,226.98 | 99,438,015.70 | 105,437,242.68 |
| II. Accumulated amortization | | | |
| 1. Balance on 31 December 2014 | 2,060,803.90 | 53,512,998.26 | 55,573,802.16 |
| 2. Increased amount in the current period | 1,959,418.65 | 16,316,448.59 | 18,275,867.24 |
| (1) Withdrawing | 1,959,418.65 | 16,316,448.59 | 18,275,867.24 |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2015 | 4,020,222.55 | 69,829,446.85 | 73,849,669.40 |
| III. Depreciation provision | | | |
| 1. Initial balance | | | |
| 2. Increased amount in the current period | | | |
| 3. Decreased amount in the current period | | | |
| 4. Ending balance | | | |
| IV. Book value | | | |
| 1. Book value on 31 December 2015 | 1,979,004.43 | 29,608,568.85 | 31,587,573.28 |
| 2. Book value on 31 December 2014 | 1,256,357.39 | 33,803,962.47 | 35,060,319.86 |
| I. Original book value | | | |
| 1. Balance on 31 December 2013 | 2,496,963.76 | 47,434,234.88 | 49,931,198.64 |
| 2. Increased amount in the current period | 820,197.53 | 39,882,725.85 | 40,702,923.38 |
| (1) Purchase | 820,197.53 | | 820,197.53 |
| (2) Transfer of development expenditure | | 39,882,725.85 | 39,882,725.85 |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2014 | 3,317,161.29 | 87,316,960.73 | 90,634,122.02 |
| II. Accumulated amortization | | | |
| 1. Balance on 31 December 2013 | 1,520,236.54 | 38,262,671.25 | 39,782,907.79 |
| 2. Increased amount in the current period | 540,567.36 | 15,250,327.01 | 15,790,894.37 |
| (1) Withdrawing | 540,567.36 | 15,250,327.01 | 15,790,894.37 |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2014 | 2,060,803.90 | 53,512,998.26 | 55,573,802.16 |
| III. Depreciation provision | | | |
| 1. Balance on 31 December 2013 | | | |
| 2. Increased amount in the current period | | | |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2014 | | | |
| IV. Book value | | | |
| 1. Book value on 31 December 2014 | 1,256,357.39 | 33,803,962.47 | 35,060,319.86 |
| 2. Book value on 31 December 2013 | 976,727.22 | 9,171,563.63 | 10,148,290.85 |

| Items | Software | Non-patent technology | Total |
|---|--------------|--------------------------|---------------|
| I. Original book value | | | |
| 1. Balance on 31 December 2012 | 1,911,873.76 | 45,178,002.91 | 47,089,876.67 |
| 2. Increased amount in the current period | 585,090.00 | 2,256,231.97 | 2,841,321.97 |
| (1) Purchase | 585,090.00 | | 585,090.00 |
| (2) Transfer of development expenditure | | 2,256,231.97 | 2,256,231.97 |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2013 | 2,496,963.76 | 47,434,234.88 | 49,931,198.64 |
| II. Accumulated amortization | | | |
| 1. Balance on 31 December 2012 | 1,137,672.93 | 22,550,574.92 | 23,688,247.85 |
| 2. Increased amount in the current period | 382,563.61 | 15,712,096.33 | 16,094,659.94 |
| (1) Withdrawing | 382,563.61 | 15,712,096.33 | 16,094,659.94 |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2013 | 1,520,236.54 | 38,262,671.25 | 39,782,907.79 |
| III. Depreciation provision | | | |
| 1. Balance on 31 December 2012 | | | |
| 2. Increased amount in the current period | | | |
| 3. Decreased amount in the current period | | | |
| 4. Balance on 31 December 2013 | | | |
| IV. Book value | | | |
| 1. Book value on 31 December 2013 | 976,727.22 | 9,171,563.63 | 10,148,290.85 |
| 2. Book value on 31 December 2012 | 774,200.83 | 22,627,427.99 | 23,401,628.82 |

Note: 1. Intangible assets of the Company are mainly office software and intangible assets with independent R&D of the Company are product R&D related to servers. After recognition, they will be listed by products with patents and software formed in the process attached.

Note: 2. Compared with December 31, 2013, the balance of intangible assets on 31 December 2014 increased by 245.48%, which was mainly because of the transfer of development expenditure as intangible assets.

11. Deferred income tax assets/Deferred income tax liabilities

(1) Deferred income tax assets without writing-off

| Items | 31 December 2015 | | 31 December 2014 | | 31 December 2013 | |
|--------------------------------|--|----------------------------------|--|----------------------------------|--|----------------------------------|
| | Deductable temporary differences | Deferred income tax assets | Deductable temporary differences | Deferred income tax assets | Deductable temporary differences | Deferred income tax assets |
| Provision for asset impairment | 6,021,283.62 | 903,192.54 | 6,020,445.63 | 903,066.84 | 6,466,022.01 | 969,903.30 |
| Deferred income | | | 9,941,188.15 | 1,491,178.22 | 10,420,598.73 | 1,563,089.81 |
| Accrued expenses | | | 2,203,923.76 | 330,588.56 | 1,090,578.61 | 163,586.79 |
| Total | 6,021,283.62 | 903,192.54 | 18,165,557.54 | 2,724,833.62 | 17,977,199.35 | 2,696,579.90 |
| Including: | | | | | | |
| Recovered amount over | | | | | | |
| 1 estimated year | 6,021,283.62 | 903,192.54 | 18,165,557.54 | 2,724,833.62 | 17,977,199.35 | 2,696,579.90 |

(2) Deferred income tax liabilities without writing-off

None.

(3) Net amount of deferred income tax asset and deferred income tax liability after writing-off

None.

(4) Details of unrecognized deferred income tax assets

None.

(5) Deductible loss of unconfirmed deferred income tax assets which will be maturity in the following year

None.

12. Provisions for asset impairment

| Items | 31 December | Increase in the current period | | Decrease in the current period | | | 31 December |
|-------------------------------------|---------------------|--------------------------------|-------|--------------------------------|---------------------|-------|----------------------|
| | 2014 | Withdrawal | Other | Recovery | Writing off | Other | 2015 |
| Impairment provisions for bad debts | 5,230,917.80 | 3,163,943.22 | | | | | 8,394,861.02 |
| Impairment provisions for inventory | <u>789,527.83</u> | <u>3,510,396.16</u> | | | | | <u>4,299,923.99</u> |
| Total | <u>6,020,445.63</u> | <u>6,674,339.38</u> | | | | | <u>12,694,785.01</u> |
| Items | 31 December | Increase in the current period | | Decrease in the current period | | | 31 December |
| | 2013 | Withdrawal | Other | Recovery | Writing off | Other | 2014 |
| Impairment provisions for bad debts | 6,283,982.38 | 1,608,418.94 | | | 2,661,483.52 | | 5,230,917.80 |
| Impairment provision for bad debt | <u>182,039.63</u> | <u>607,488.20</u> | | | | | <u>789,527.83</u> |
| Total | <u>6,466,022.01</u> | <u>2,215,907.14</u> | | | <u>2,661,483.52</u> | | <u>6,020,445.63</u> |
| Items | 31 December | Increase in the current period | | Decrease in the current period | | | 31 December |
| | 2012 | Withdrawal | Other | Recovery | Writing off | Other | 2013 |
| Impairment provisions for bad debts | 7,173,088.83 | -889,106.45 | | | | | 6,283,982.38 |
| Impairment provision for bad debt | <u>617,608.08</u> | <u>176,810.12</u> | | | <u>612,378.57</u> | | <u>182,039.63</u> |
| Total | <u>7,790,696.91</u> | <u>-712,296.33</u> | | | <u>612,378.57</u> | | <u>6,466,022.01</u> |

13. Short-term loans*(1) Classification of short-term loans*

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|-----------------|---------------------|---------------------|----------------------|
| Guaranteed loan | | | <u>40,000,000.00</u> |
| Total | | | <u>40,000,000.00</u> |

(2) Information for short-term loans overdue

None.

14. Accounts receivable

(1) Information of accounts receivable

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|----------------|------------------------------|------------------------------|------------------------------|
| Material loans | <u>416,716,681.32</u> | <u>274,041,106.54</u> | <u>135,110,195.31</u> |
| Total | <u><u>416,716,681.32</u></u> | <u><u>274,041,106.54</u></u> | <u><u>135,110,195.31</u></u> |

(2) Significant accounts payable with age over 1 year

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 | Reason of un-repaid or carried forward |
|--|-----------------------------|-----------------------------|----------------------------|---|
| Ex-channel Group Limited | 78,431,658.09 | 24,373,016.56 | | Payment delay of related company |
| Powerleader Science & Technology (HK) Limited | | | 3,448,304.68 | Payment delay of related company |
| Total | <u><u>78,431,658.09</u></u> | <u><u>24,373,016.56</u></u> | <u><u>3,448,304.68</u></u> | |

15. Advance receipt

(1) Information of advance receipt

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|--------------|-----------------------------|----------------------------|-----------------------------|
| Goods fund | <u>21,648,944.44</u> | <u>8,637,726.49</u> | <u>12,124,719.57</u> |
| Total | <u><u>21,648,944.44</u></u> | <u><u>8,637,726.49</u></u> | <u><u>12,124,719.57</u></u> |

(2) Significant advances receipt with age over 1 year in 2015

| Items | Ending balance | Reason for not repaying or carrying forward |
|---|----------------------------|--|
| Guangdong China RS Technology Co., Ltd. | <u>2,064,360.00</u> | Goods undelivered |
| Total | <u><u>2,064,360.00</u></u> | |

(3) Significant advances receipt with age over 1 year in 2014

None.

(4) Significant advances receipt with age over 1 year in 2014

| Items | Ending balance | Reason for not repaying or carrying forward |
|---|----------------------------|--|
| School of Computing in the National University of Defense Technology | 710,774.00 | Goods undelivered |
| National Supercomputing Center of Tianjin | <u>737,548.81</u> | Goods undelivered |
| Total | <u><u>1,448,322.81</u></u> | |

16. Employee pay payable

| Items | 31 December 2014 | Increase in the current period | Decrease in the current period | 31 December 2015 |
|------------------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
| Short-term compensation payable | 4,852,879.36 | 49,801,680.61 | 49,612,722.28 | 5,041,837.69 |
| Defined contribution plans payable | | <u>2,992,651.98</u> | <u>2,992,651.98</u> | |
| Total | <u>4,852,879.36</u> | <u>52,794,332.59</u> | <u>52,605,374.26</u> | <u>5,041,837.69</u> |

| Items | 31 December 2013 | Increase in the current period | Decrease in the current period | 31 December 2014 |
|------------------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
| Short-term compensation payable | 3,832,389.96 | 37,707,046.85 | 36,686,557.45 | 4,852,879.36 |
| Defined contribution plans payable | | <u>3,022,237.10</u> | <u>3,022,237.10</u> | |
| Total | <u>3,832,389.96</u> | <u>40,729,283.95</u> | <u>39,708,794.55</u> | <u>4,852,879.36</u> |

| Items | 31 December 2012 | Increase in the current period | Decrease in the current period | 31 December 2013 |
|------------------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
| Short-term compensation payable | 1,890,761.76 | 28,692,387.33 | 26,750,759.13 | 3,832,389.96 |
| Defined contribution plans payable | | <u>1,256,471.52</u> | <u>1,256,471.52</u> | |
| Total | <u>1,890,761.76</u> | <u>29,948,858.85</u> | <u>28,007,230.65</u> | <u>3,832,389.96</u> |

(1) Short-term compensation payable

| Items | 31 December 2014 | Increase in the current period | Decrease in the current period | 31 December 2015 |
|---|---------------------|-----------------------------------|--------------------------------------|---------------------|
| 1. Salary, bonus, allowance and subsidy | 4,852,879.36 | 44,377,591.12 | 44,188,632.79 | 5,041,837.69 |
| 2. Welfare expense of employee | | 3,228,591.48 | 3,228,591.48 | |
| 3. Social insurance charges | | 1,289,911.06 | 1,289,911.06 | |
| Including: | | | | |
| Medical insurance | | 1,069,709.22 | 1,069,709.22 | |
| Industrial injury insurance | | 71,406.45 | 71,406.45 | |
| Birth insurance | | 148,795.39 | 148,795.39 | |
| 4. Housing fund | | 905,586.95 | 905,586.95 | |
| Total | 4,852,879.36 | 49,801,680.61 | 49,612,722.28 | 5,041,837.69 |
| Items | 31 December 2013 | Increase in the current period | Decrease in the current period | 31 December 2014 |
| 1. Salary, bonus, allowance and subsidy | 3,832,389.96 | 34,994,043.77 | 33,973,554.37 | 4,852,879.36 |
| 2. Welfare expense of employee | | 552,265.53 | 552,265.53 | |
| 3. Social insurance charges | | 1,433,612.92 | 1,433,612.92 | |
| Including: | | | | |
| Medical insurance | | 1,201,133.14 | 1,201,133.14 | |
| Industrial injury insurance | | 38,746.63 | 38,746.63 | |
| Birth insurance | | 193,733.15 | 193,733.15 | |
| 4. Housing fund | | 727,124.63 | 727,124.63 | |
| Total | 3,832,389.96 | 37,707,046.85 | 36,686,557.45 | 4,852,879.36 |
| Items | 31 December 2012 | Increase in the current period | Decrease in the current period | 31 December 2013 |
| 1. Salary, bonus, allowance and subsidy | 1,890,761.76 | 26,244,842.82 | 24,303,214.62 | 3,832,389.96 |
| 2. Welfare expense of employee | | 1,542,640.35 | 1,542,640.35 | |
| 3. Social insurance charges | | 560,646.75 | 560,646.75 | |
| Including: | | | | |
| Medical insurance | | 469,730.27 | 469,730.27 | |
| Industrial injury insurance | | 15,152.75 | 15,152.75 | |
| Birth insurance | | 75,763.73 | 75,763.73 | |
| 4. Housing fund | | 344,257.41 | 344,257.41 | |
| Total | 1,890,761.76 | 28,692,387.33 | 26,750,759.13 | 3,832,389.96 |

(2) Defined contribution plans payable

| Items | 31 December 2014 | Increase in the current period | Decrease in the current period | 31 December 2015 |
|--------------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
| Basic endowment insurance | | 2,763,710.84 | 2,763,710.84 | |
| Unemployment insurance premium | | 228,941.14 | 228,941.14 | |
| Enterprise annuity expenses | | | | |
| Total | | <u>2,992,651.98</u> | <u>2,992,651.98</u> | |

| Items | 31 December 2013 | Increase in the current period | Decrease in the current period | 31 December 2014 |
|--------------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
| Basic endowment insurance | | 2,712,264.06 | 2,712,264.06 | |
| Unemployment insurance premium | | 309,973.04 | 309,973.04 | |
| Total | | <u>3,022,237.10</u> | <u>3,022,237.10</u> | |

| Items | 31 December 2012 | Increase in the current period | Decrease in the current period | 31 December 2013 |
|--------------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
| Basic endowment insurance | | 1,150,027.91 | 1,150,027.91 | |
| Unemployment insurance premium | | 106,443.61 | 106,443.61 | |
| Enterprise annuity expenses | | | | |
| Total | | <u>1,256,471.52</u> | <u>1,256,471.52</u> | |

Note: The Company pays basic endowment insurance and unemployment insurance organized and implemented by local labor and social security departments for employees. The Company pays endowment insurance premium and unemployment insurance premium every month to local management institution of basic endowment insurance based on the cardinal sum and proportion of basic endowment insurance and unemployment insurance. After retirement, local labor and social security departments are responsible for paying basic endowment insurance to the retired employees. During the periods when the employees provide service, the Company recognizes the amount payable calculated according to the above regulations as a liability and includes in the current profit and loss or the cost of relevant asset.

17. Tax payable

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|--|----------------------|---------------------|---------------------|
| VAT | 16,844,202.48 | | |
| Corporate income tax | 8,123,774.83 | 3,733,455.42 | 7,376,379.34 |
| Individual income tax | 130,872.48 | 67,098.90 | 74,265.68 |
| Urban maintenance and construction tax | 65,492.90 | 10,699.70 | 33,123.73 |
| Education surcharge | 46,780.64 | 7,642.64 | 23,659.80 |
| Other | | 757.89 | 2,192.26 |
| Total | 25,211,123.33 | 3,819,654.55 | 7,509,620.81 |

18. Other accounts payable

(1) Other accounts payable disclosed by nature

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|-------------------------------|----------------------|-----------------------|-----------------------|
| Bad debts deduction | 214,772.78 | 93,308.14 | 100,857.54 |
| Related party transaction | 24,125,347.76 | 100,088,346.98 | 137,052,004.87 |
| Non-related party transaction | 15,652,625.51 | | |
| Other | 149,874.32 | 10,022.80 | 51,221.36 |
| Total | 40,142,620.37 | 100,191,677.92 | 137,204,083.77 |

(2) Other significant accounts payable with age over 1 year

None.

19. Other current liabilities

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|--|---------------------|---------------------|---------------------|
| Accrual transportation expense | 989,222.07 | 1,189,900.93 | 711,847.63 |
| Accrual custom charges | 364,340.49 | 450,110.20 | 144,258.48 |
| Unclaimed rent transfer at the end of the report period | | 563,912.63 | 234,472.50 |
| Total | 1,353,562.56 | 2,203,923.76 | 1,090,578.61 |

20. Deferred income

| Items | 31 December 2015 | | | | Reason |
|-------------------|---------------------|--------------------------------|--------------------------------|----------------------|-------------------|
| | Initial balance | Increase in the current period | Decrease in the current period | Ending balance | |
| Government grants | 9,941,188.15 | 20,660,000.00 | 9,941,188.15 | 20,660,000.00 | Government grants |
| Total | 9,941,188.15 | 20,660,000.00 | 9,941,188.15 | 20,660,000.00 | |

| Items | 31 December 2014 | | | | Reason |
|-------------------|----------------------|--------------------------------|--------------------------------|---------------------|-------------------|
| | Initial balance | Increase in the current period | Decrease in the current period | Ending balance | |
| Government grants | 10,420,598.73 | 2,814,000.00 | 3,293,410.58 | 9,941,188.15 | Government grants |
| Total | 10,420,598.73 | 2,814,000.00 | 3,293,410.58 | 9,941,188.15 | |

| Items | 31 December 2013 | | | | Reason |
|-------------------|---------------------|--------------------------------|--------------------------------|----------------------|-------------------|
| | Initial balance | Increase in the current period | Decrease in the current period | Ending balance | |
| Government grants | 1,427,200.00 | 10,154,350.00 | 1,160,951.27 | 10,420,598.73 | Government grants |
| Total | 1,427,200.00 | 10,154,350.00 | 1,160,951.27 | 10,420,598.73 | |

21. Owner's equity

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|-----------------------------|-----------------------|-----------------------|-----------------------|
| Paid-up capital | 38,000,000.00 | 38,000,000.00 | 38,000,000.00 |
| Capital reserves | 45,433,917.44 | 45,233,917.44 | 45,233,917.44 |
| Undistributed profits | 222,394,299.51 | 137,977,283.54 | 69,629,082.69 |
| Total owner's equity | 305,828,216.95 | 221,211,200.98 | 152,863,000.13 |

22. Business income and business cost

| Items | 2015 | | 2014 | | 2013 | |
|----------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Income | Cost | Income | Cost | Income | Cost |
| Major business | 771,067,998.01 | 615,656,312.23 | 483,953,075.02 | 358,384,347.24 | 380,380,658.84 | 285,296,778.48 |
| Other business | 1,528,530.16 | 295,489.02 | 329,905.00 | | 573,850.00 | |
| Total | 772,596,528.17 | 615,951,801.25 | 484,282,980.02 | 358,384,347.24 | 380,954,508.84 | 285,296,778.48 |

23. Business tax and surcharges

| Items | 2015 | 2014 | 2013 |
|--|-------------------|-------------------|---------------------|
| Business tax | | | 12,603.37 |
| Urban maintenance and construction tax | 557,850.38 | 342,485.71 | 685,328.54 |
| Education surcharge | 398,464.55 | 244,632.66 | 489,520.42 |
| Total | 956,314.93 | 587,118.37 | 1,187,452.33 |

24. Selling expenses

| Items | 2015 | 2014 | 2013 |
|----------------------------------|----------------------|----------------------|----------------------|
| Salary | 14,387,446.79 | 11,012,636.99 | 7,295,322.35 |
| Transport expense | 2,412,147.09 | 1,602,830.18 | 1,273,313.04 |
| Rent | 2,160,813.18 | 1,461,725.48 | 1,337,931.98 |
| Entertainment expense | 1,077,031.69 | 1,060,256.90 | 641,012.17 |
| Social insurance for employees | 2,050,030.37 | 1,178,710.27 | 1,038,288.97 |
| Travel expense | 1,214,690.26 | 823,425.20 | 396,929.17 |
| Market promotion expense | 2,336,628.45 | 537,716.45 | 1,353,098.45 |
| Presents and sponsorship expense | 453,625.42 | 649,049.08 | 526,410.61 |
| Local transportation expense | 1,263,935.80 | 22,338.90 | 454,721.09 |
| Office expense | 430,796.05 | 379,300.39 | 356,551.58 |
| Other | 1,643,552.34 | 2,274,620.55 | 2,350,296.64 |
| Total | 29,430,697.44 | 21,002,610.39 | 17,023,876.05 |

Note: The column “other” mainly includes welfare expense for employees, transport expense, telephone bill, depreciation cost and advertising expense, etc.

25. Management expenses

| Items | 2015 | 2014 | 2013 |
|-----------------------------------|----------------------|----------------------|----------------------|
| Amortization of intangible assets | 17,071,028.76 | 15,790,894.37 | 7,544,708.56 |
| Salary | 7,873,450.74 | 5,868,225.53 | 4,813,737.40 |
| Agency fee | 1,491,996.20 | 1,498,179.30 | 11,814.32 |
| Travel expense | 1,414,414.53 | 1,222,515.90 | 273,684.51 |
| Social insurance | 453,023.30 | 933,525.49 | 258,601.89 |
| Depreciation | 263,199.08 | 727,845.38 | 393,874.07 |
| Welfare expense | 393,918.23 | 236,903.45 | 187,322.91 |
| Transport expense | 1,320,143.43 | 200,796.52 | 156,749.74 |
| Rent | 252,107.83 | 297,836.76 | 172,108.77 |
| Advertising expense | 140,463.58 | 117,300.19 | 595,979.25 |
| Other | 3,835,815.67 | 3,430,405.35 | 9,779,008.78 |
| Total | 34,509,561.35 | 30,324,428.24 | 24,187,590.20 |

Note: The column “other” mainly includes service expense, taxes, entertainment expense, office R&D expense, etc; “Agency fee” refers to the handling charge for custom clearance when purchasing imported raw materials. The Company imported a large number of raw materials in 2014, so the handling charge of custom clearance was high.

26. Financial cost

| Items | 2015 | 2014 | 2013 |
|-----------------------------|-----------------------------|----------------------------|--------------------------|
| Interest expense | 7,962.67 | 2,072,000.00 | 2,600,249.68 |
| Subtract: interest income | 28,426.36 | 33,926.04 | 90,434.96 |
| Exchange loss | 13,398,831.23 | 191,823.30 | -1,900,751.06 |
| Handling charge of the bank | <u>103,666.63</u> | <u>11,309.26</u> | <u>23,659.05</u> |
| Total | <u>13,482,034.17</u> | <u>2,241,206.52</u> | <u>632,722.71</u> |

27. Losses from asset impairment

| Items | 2015 | 2014 | 2013 |
|------------------------------------|----------------------------|----------------------------|---------------------------|
| Losses from bad debt | 3,163,943.22 | 1,608,418.94 | -872,530.45 |
| Losses from inventory depreciation | <u>3,510,396.16</u> | <u>607,488.20</u> | <u>176,810.12</u> |
| Total | <u>6,674,339.38</u> | <u>2,215,907.14</u> | <u>-695,720.33</u> |

28. Non-operating income

| Items | 2015 | 2014 | 2013 |
|---|-----------------------------|----------------------------|----------------------------|
| Total gains on disposal of non-current assets | 143.00 | 1.60 | |
| Including: gain on disposal of fixed assets | 143.00 | 1.60 | |
| Government grants | 15,399,843.25 | 7,094,557.55 | 5,332,920.49 |
| Other | <u>541.49</u> | <u>22,266.11</u> | <u>8,240.52</u> |
| Total | <u>15,400,527.74</u> | <u>7,116,825.26</u> | <u>5,341,161.01</u> |

Of which, amount in the non-recurring profit and loss:

| Items | 2015 | 2014 | 2013 |
|---|-----------------------------|----------------------------|----------------------------|
| Total gains on disposal of non-current assets | 143.00 | 1.60 | |
| Including: gain on disposal of fixed assets | 143.00 | 1.60 | |
| Government grants | 12,434,488.15 | 3,293,410.58 | 1,160,951.27 |
| Other | <u>541.49</u> | <u>22,266.11</u> | <u>8,240.52</u> |
| Total | <u>12,435,172.64</u> | <u>3,315,678.29</u> | <u>1,169,191.79</u> |

Note: The column “other” refers to handling charge rebates of individual income tax and reparations for winning lawsuits.

29. Non-operating expenses

| Items | 2015 | 2014 | 2013 |
|--|----------------------------|------------------------|-------------------------|
| Total losses on disposal of non-current assets | 1,126,321.60 | 3,964.03 | 25,959.75 |
| Including: loss on disposal of fixed assets | 1,126,321.60 | 3,964.03 | 25,959.75 |
| Penalty expense | 8,365.70 | | |
| Material scrapping | 193,161.32 | | |
| Other | <u>6,188.17</u> | | <u>1,087.06</u> |
| Total | <u><u>1,334,036.79</u></u> | <u><u>3,964.03</u></u> | <u><u>27,046.81</u></u> |

Of which, amount in the non-recurring profit and loss:

| Items | 2015 | 2014 | 2013 |
|--|----------------------------|------------------------|-------------------------|
| Total losses on disposal of non-current assets | 1,126,321.60 | 3,964.03 | 25,959.75 |
| Including: loss on disposal of fixed assets | 1,126,321.60 | 3,964.03 | 25,959.75 |
| Penalty expense | 8,365.70 | | |
| Material scrapping | 193,161.32 | | |
| Other | <u>6,188.17</u> | | <u>1,087.06</u> |
| Total | <u><u>1,334,036.79</u></u> | <u><u>3,964.03</u></u> | <u><u>27,046.81</u></u> |

Note: The column “other” mainly refers to disposal and penalty of debts and credit purchase of employees.

30. Income tax expenses

| Items | 2015 | 2014 | 2013 |
|---------------------------------------|-----------------------------|----------------------------|----------------------------|
| Income tax expenses of current period | 13,902,979.34 | 8,320,276.22 | 6,826,454.45 |
| Adjustment of deferred income tax | <u>1,821,641.08</u> | <u>-28,253.72</u> | <u>-1,002,611.03</u> |
| Total | <u><u>15,724,620.42</u></u> | <u><u>8,292,022.50</u></u> | <u><u>5,823,843.42</u></u> |

VI. CHANGE OF RANGE OF CONSOLIDATED FINANCIAL STATEMENTS**1. Business combination not under common control**

None.

2. Business combination under common control

Powerleader Technology plans to transfer its 100% equity possession of Powerleader Software to Powerleader Computing at an agreed transfer price of 85,000,000.00 which was the net asset of Powerleader Software on December 31, 2014. Powerleader Software and our company are both wholly-owned subsidiaries of Powerleader Technology, forming business combination under common control therefore.

3. Counter purchase

None.

4. Disposal of subsidiary

None.

5. Other reasons for change in combination range

None.

VII. Equity in other entities**1. Equity in subsidiary***(1) Composition of enterprise group*

| Name of subsidiary | Main business location | Registration place | Nature of business | Shareholding proportion (%) | | Voting | Form of achievement |
|---|------------------------|--------------------|--|-----------------------------|----------|--------|---|
| | | | | Direct | Indirect | | |
| Shenzhen Powerleader Software Development Limited | Shenzhen | Shenzhen | Computer hardware development and network technology development | 100 | | 100 | Business combination under common control |
| Powerleader Computing (Hong Kong) Co., Ltd. | Hong Kong | Hong Kong | Trade | 100 | | 100 | Investment to establish |

(2) Significant non-wholly-owned subsidiaries

None.

(3) Main financial information for significant non-wholly-owned subsidiaries

None.

(4) Significant restrictions for using the Company's assets and settling the Company's liabilities

None.

(5) Financial support or other support provided to structuring subject in the range of combined financial statement

None.

2. Transactions for which the share of owner's equity in subsidiary changes but the subsidiary is controlled

None.

3. Equity in joint venture or affiliated business*(1) Significant cooperative enterprises or affiliated business*

None.

(2) Main financial information for significant cooperative enterprises

None.

(3) Main financial information for significant affiliated business

None.

(4) Summary on financial information for insignificant cooperative enterprises and affiliated business

None.

(5) Significant restrictions for cooperative enterprises or affiliated business transferring funds to the Company

None.

(6) Excess loss generated in cooperative enterprises or affiliated business

None.

(7) Unconfirmed commitment related to investment in cooperative enterprises

None.

(8) Contingent liabilities related to investment in cooperative enterprises or affiliated business

None.

(9) Significant joint operation

None.

4. Equity of structuring subject out of the range of combined financial statement

None.

VIII. RISK RELATED TO FINANCIAL INSTRUMENT

The business activities of the Company will face with many financial risks: credit risk and liquidity risk. The Company develops overall risk management plan against the unpredictability of financial market to reduce the possible adverse influence on the financial performance of the Company as far as possible.

1. Market risk

(1) Foreign exchange risk

The Company's main business is operated in domestic and settled with RMB. But the Company's recognized foreign currency assets and future foreign currency transaction (the money of account for foreign currency assets and liabilities and foreign currency transaction mainly is U.S. dollar) still faces with foreign exchange risk. Finance department in the headquarter is responsible for supervising scale of foreign currency transaction as well as foreign currency assets and liabilities to reduce foreign exchange risk as far as possible; therefore, the Company will likely sign forward foreign exchange contract or currency swap contract to evade foreign exchange risk. In 2015, 2014 and 2013, the Company has not signed any forward foreign exchange contract or currency swap contract.

On December 31, 2015, December 31, 2014 and December 31, 2013, the Company has no foreign current financial assets and liabilities.

For client with poor credit record, if necessary, the Company will require cash deposit, pledge or guarantee and other credit enhancement to reduce the exposure risks to acceptable level. On December 31, 2015, there is no information on relevant credit enhancement to be disclosed for the financial assets of the Company (On December 31, 2014 and December 31, 2013: None).

(2) Information for financial assets overdue and impaired:

| Items | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|-----------------------------------|------------------------------|------------------------------|------------------------------|
| Accounts receivable: | | | |
| Not overdue and not impaired | 177,566,280.95 | 177,566,280.95 | 90,292,931.76 |
| Impaired | 191,726,103.06 | 34,533,731.11 | 36,896,548.40 |
| Subtract: Impairment provision | <u>8,340,133.02</u> | <u>5,192,605.18</u> | <u>6,243,706.08</u> |
| Subtotal | 360,952,250.99 | 206,907,406.88 | 120,945,774.08 |
| Other accounts receivable: | | | |
| Not overdue and not impaired | 173,833,960.18 | 161,952,652.34 | 143,733,928.84 |
| Impaired | 182,880.00 | 182,880.00 | 82,880.00 |
| Subtract: Impairment provision | <u>54,728.00</u> | <u>38,312.62</u> | <u>40,276.30</u> |
| Subtotal | <u>173,962,112.18</u> | <u>162,097,219.72</u> | <u>143,776,532.54</u> |
| Total | <u><u>534,914,363.17</u></u> | <u><u>369,004,626.60</u></u> | <u><u>264,722,306.62</u></u> |

(3) *Financial assets or non-financial assets recognized through things pledged or other credit enhancement in current period*

The Company has no financial assets or non-financial assets recognized through things pledged or other credit enhancement in current period.

3. Liquidity risk

Each subsidiary of the Company is responsible for its own cash flow prospection. Finance department in the headquarter summarizes cash flow prospection of each subsidiary, and continuously supervises short-term and long-term fund demand at the group level, to ensure abundant cash resources and negotiable securities ready for realization; meanwhile, it continuously supervises whether regulations on loan agreement are met, obtains the commitment from main financing institution to provide abundant reserve funds to meet short-term and long-term fund demand.

On the date of balance sheet date, various financial liabilities are disclosed with undiscounted contract cash flow by maturity date as follows:

| Items | 31 December 2015 | | | | Total |
|------------------------|------------------------------|----------|-----------|-----------------|------------------------------|
| | Within 1 year | 1–2years | 2–5 years | Over 5 years | |
| Accounts payable | 416,716,681.32 | | | | 416,716,681.32 |
| Other accounts payable | <u>40,142,620.37</u> | | | | <u>40,142,620.37</u> |
| Total | <u><u>456,859,301.69</u></u> | | | | <u><u>456,859,301.69</u></u> |

| Item | 31 December 2014 | | | | Total |
|------------------------|------------------------------|----------|-----------|--------------|------------------------------|
| | Within 1 year | 1–2years | 2–5 years | Over 5 years | |
| Short-term loans | | | | | |
| Accounts payable | 274,041,106.54 | | | | 274,041,106.54 |
| Other accounts payable | <u>100,191,677.92</u> | | | | <u>100,191,677.92</u> |
| Total | <u>374,232,784.46</u> | | | | <u>374,232,784.46</u> |

| Item | 31 December 2013 | | | | Total |
|------------------------|------------------------------|----------|-----------|--------------|------------------------------|
| | Within 1 year | 1–2years | 2–5 years | Over 5 years | |
| Short-term loans | 40,000,000.00 | | | | 40,000,000.00 |
| Accounts payable | 135,110,195.31 | | | | 135,110,195.31 |
| Other accounts payable | <u>137,204,083.77</u> | | | | <u>137,204,083.77</u> |
| Total | <u>312,314,279.08</u> | | | | <u>312,314,279.08</u> |

IX. ASSOCIATED PARTY AND THEIR TRANSACTIONS

1. The parent company of the Company

| Name of the parent company | Registration place | Nature of business | Registered capital | Shareholding ratio in the Company | Voting ratio in the Company |
|--|--------------------|---|--------------------|-----------------------------------|-----------------------------|
| Powerleader Technology Group Co., Ltd. | Shenzhen | Manufacturing, development and sales of computer software and hardware; imports and exports | 243,000,000.00 | 90.00% | 90.00% |

The final controller of the Company is the couple Li Ruijie and Zhang Yunxia.

2. Subsidiaries of the Company

See Note VII for information for subsidiaries of the Company and equity in other entities.

3. Information for cooperative and affiliated business

None.

4. Information for other associated party

| Name of other associated party | Relationship between other associated party and the Company |
|---|---|
| Shenzhen Baoteng Internet Technology Limited | Controlled by the same parent company |
| Shenzhen Powerleader Property Development Limited | Controlled by the same parent company |
| Shenzhen Baotong Zhiyuan Technology Limited | Controlled by the same parent company |
| Shenzhen Powerleader Cloud Computing Research Institute Limited | Controlled by the same parent company |
| Guangzhou Baoyun Information Technology Co., Ltd. | Controlled by the same parent company |
| Powerleader Science & Technology (HK) Limited | Controlled by the same parent company |
| Ex-channel Group Limited | Controlled by the same parent company |
| Powerleader Binhai Technology (Tianjin) Limited | Controlled by the same parent company |
| Nanjing Powerleader Cloud Computing Technology Co., Ltd. | Controlled by the same parent company |
| Shenzhen Subituo Network Technology Co., Ltd. | Controlled by the same ultimate party |
| Qianhai Pengde Mobile Internet Venture Investment Fund | Shareholder |
| Shenzhen Zhuoye Interaction Network Technology Co., Ltd. | Controlled by the same ultimate party |
| Jieyang Powerleader Computing Digital Square Co., Ltd. | Controlled by the same ultimate party |
| Shenzhen Powerleader Communication Technology Co., Ltd. | Controlled by the same ultimate party |
| Shenzhen Yingbaotong Technology Co., Ltd. | Shareholder |
| Shenzhen Baozhongyun Technology Service Co., Ltd. | Controlled by the same ultimate party |
| Shenzhen ZQ Game Interactive Network Co., Ltd. | Controlled by the same ultimate party |

5. Associated transactions

(1) Associated transactions of merchandise purchase/receiving labor services

① Merchandise purchase/receiving labor services

| Associated Party | Content of associated transaction | Transaction amount in 2015 | Transaction amount in 2014 | Transaction amount in 2013 |
|---|-----------------------------------|----------------------------|----------------------------|----------------------------|
| Ex-channel Group Limited | Purchase of goods | 82,036,981.01 | 143,203,015.04 | 46,477,814.99 |
| Shenzhen Ex-channel Zhiyuan Technology Co., Ltd. | Purchase of goods | 21,078,482.68 | 23,091,115.90 | 5,552,081.99 |
| Powerleader Binhai Technology (Tianjin) Limited | Purchase of goods | | | 4,883,350.43 |
| Shenzhen Subituo Network Technology Co., Ltd. | Purchase of goods | 82,397.44 | | 31,000.00 |
| Shenzhen Baozhongyun Technology Service Co., Ltd. | Purchase of goods | | | 194,174.76 |
| Powerleader Science & Technology (HK) Limited | Purchase of goods | | 404,711.22 | 4,324,639.96 |
| Total | | <u>103,197,861.13</u> | <u>166,698,842.16</u> | <u>61,463,062.13</u> |

② *Selling goods/rendering service*

| Associated Party | Content of associated transaction | Transaction amount in 2015 | Transaction amount in 2014 | Transaction amount in 2013 |
|--|-----------------------------------|----------------------------|----------------------------|----------------------------|
| Ex-channel Group Limited | Selling goods | 18,839,416.34 | | |
| Shenzhen ZQ Game Interactive Network Co., Ltd. | Selling goods | 378,395.69 | 8,329,542.20 | 1,394,290.60 |
| Shenzhen Subituo Network Technology Co., Ltd. | Selling goods | 742,654.70 | 1,246,148.72 | 49,669.41 |
| Shenzhen Ex-channel Zhiyuan Technology Co., Ltd. | Selling goods | 7,276,244.10 | 457,607.69 | 2,566,826.51 |
| Powerleader Binhai Technology (Tianjin) Limited | Selling goods | | | 1,420,341.88 |
| Shenzhen Zhuoye Interaction Network Technology Co., Ltd. | Selling goods | | | 38,311.97 |
| Total | | <u>27,236,710.83</u> | <u>10,033,298.61</u> | <u>5,469,440.37</u> |

(2) *Related trusteeship/contracting/outsourcing*

None.

(3) *Leasing of associated transactions*① *The Company is as lessor:*

None.

② *The Company is as lessee:*

None.

(4) *Related guarantee:*

None.

(5) *Asset transfer and debt restructuring of the related party*

None.

6. Receivables and payables for and from related party

(1) Receivables and prepayment of the related party

| Name of items and associated parties | 31 December 2015 | | 31 December 2014 | | 31 December 2013 | |
|--|-----------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|
| | Book balance | Bad debt provision | Book balance | Bad debt provision | Book balance | Bad debt provision |
| Accounts receivable: | | | | | | |
| Shenzhen ZQ Game Interactive Network Co., Ltd. | 76,516.68 | | 226,900.00 | | 39,600.00 | |
| Shenzhen Subituo Network Technology Co., Ltd. | 32,716.00 | | 100,005.00 | | 3,600.00 | |
| Shenzhen Zhuoye Interaction Network Technology Co., Ltd. | | | | | 400.00 | |
| Shenzhen Powerleader Communication Technology Co., Ltd. | 489,649.67 | | 353,459.67 | | 353,459.67 | |
| Shenzhen Ex-channel Zhiyuan Technology Co., Ltd. | 11,238,716.82 | | 2,498,313.88 | | 849,920.18 | |
| Ex-channel Group Limited | 5,497,159.50 | | | | | |
| Powerleader Binhai Technology (Tianjin) Limited | 1,661,800.00 | | 1,661,800.00 | | | |
| Powerleader Technology Group Co., Ltd. | | | | | | |
| Subtotal | 37,638,257.33 | | 4,840,478.55 | | 1,246,979.85 | |
| Accounts prepaid: | | | | | | |
| Shenzhen Ex-channel Zhiyuan Technology Co., Ltd. | 5,389,442.65 | | | | | |
| Subtotal | 5,389,442.65 | — | — | — | — | — |
| Other accounts receivable: | | | | | | |
| Powerleader Science & Technology Group Limited | 145,034,519.71 | | 141,795,091.52 | | 126,678,984.38 | |
| Ex-channel Group Limited | | | 5,980,693.97 | | 5,980,693.97 | |
| Shenzhen Ex-channel Zhiyuan Technology Co., Ltd. | 14,634,501.79 | | 6,235,861.79 | | 1,635,861.79 | |
| Powerleader Science & Technology (HK) Limited | 5,802,470.45 | | | | | |
| Shenzhen Powerleader Communication Technology Co., Ltd. | 3,560,000.00 | | 3,560,000.00 | | 4,665,227.15 | |
| Shenzhen Subituo Network Technology Co., Ltd. | 298,532.55 | | | | | |
| Subtotal | 169,330,024.50 | | 157,571,647.28 | | 138,960,767.29 | |
| Total | 212,357,724.48 | | 162,412,125.83 | | 140,207,747.14 | |

(2) Accounts receivable and prepaid accounts of the related party

| Name of items and associated parties | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|---|------------------------------|------------------------------|------------------------------|
| Accounts payable: | | | |
| Ex-channel Group Limited | 288,106,893.29 | 108,859,531.45 | 25,265,816.56 |
| Powerleader Science & Technology (HK) Limited | | | 10,157,881.60 |
| Subtotal | <u>288,106,893.29</u> | <u>108,859,531.45</u> | <u>35,423,698.16</u> |
| Accounts prepaid: | | | |
| Shenzhen ZQ Game Interactive Network Co., Ltd. | | 268,270.00 | 240,330.00 |
| Subtotal | | 268,270.00 | 240,330.00 |
| Other accounts payable: | | | |
| Powerleader Technology Group Co., Ltd. | | 85,000,000.00 | 85,000,000.00 |
| Powerleader Science & Technology (HK) Limited | | 11,265,094.48 | 1,982,135.18 |
| Ex-channel Group Limited | 21,606,529.93 | 1,259,844.79 | |
| Powerleader Software Development Limited | | 178,114.67 | 72,469.68 |
| Shenzhen Powerleader Communication Technology Co., Ltd. | 2,518,817.87 | 2,385,293.04 | |
| Nanjing Powerleader Cloud Computing Technology Co., Ltd. | | | 49,997,400.01 |
| Subtotal | <u>24,125,347.80</u> | <u>100,088,346.98</u> | <u>137,052,004.87</u> |
| Total | <u><u>312,232,241.09</u></u> | <u><u>209,216,148.43</u></u> | <u><u>172,716,033.03</u></u> |

7. Commitments of associated transactions

None.

8. Other associated transactions

None.

X. SHARE-BASED PAYMENT

None.

XI. COMMITMENTS AND CONTINGENCIES**1. Important commitments**

None.

2. Contingencies

None.

XII. MATTERS AFTER THE DATE OF BALANCE SHEET DATE

None.

XIII. OTHER IMPORTANT MATTERS**1. Correction of accounting error in previous period**

None.

2. Debt restructuring

None.

3. Significant assets transfer and exchange

None.

4. Pension plan

None.

5. Discontinuing operation

None.

6. Other important transaction and matter which influence the decision of investor

None.

FINANCIAL INFORMATION

The following is the English translation of an extract of the audited consolidated financial statements of the Taiji Computer Group prepared in accordance with ASBE and the disclosure requirements in the “Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting (2010 revised)” issued by CSRC for the year ended 31 December 2013, together with the accompanying notes (the “**2013 TC Financial Statements**”), which are included on pages 71 to 204 in the annual report for the year of 2013 of Taiji Computer (the “**2013 TC Annual Report**”) published on 28 March 2014.

I. AUDIT REPORT

| | |
|----------------------------------|---|
| Type of audit opinion | Standard unqualified opinion |
| Audit report signed on | March 26, 2014 |
| Audit institution name | Union Power CPAs Co., Ltd. (Special general partnership) |
| Audit report reference number | ZHSZ (2014) No. 020348 |
| Certified Public Accountant name | Wu Yuguang and Yang Junsen |

AUDIT REPORT

ZHSZ (2014) No. 020348

Taiji Computer Corporation Limited:

We have audited the following consolidated financial statements of Taiji Computer Corporation Limited (referred to as Taiji Computer) and that of its parent Company, including the consolidated balance sheet as of December 31, 2013, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in owner's equity and notes to financial statements for the year of 2013.

I. Management's Responsibility for Financial Statements

The management of Taiji Computer Corporation Limited is responsible for the preparation and fair report of the financial statements. This responsibility includes: (1) preparing financial statements in accordance with the Accounting Standards for Business Enterprises so that such financial statement fairly present the Company's financial position; (2) designing, implementing and maintaining the necessary internal control that are free from material misstatement, whether due to fraud or error.

II. CPA's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with provisions under China CPA Standards on Auditing. China CPA Standards on Auditing require that we comply with professional code of ethics, plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing auditing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The auditing procedures selected depend on the CPA's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making the risk assessments, we consider the internal control relevant to the preparation of the financial statements in order to design the appropriate auditing procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

III. Audit Opinion

In our opinion, the financial statements of Taiji Computer Corporation Limited have been prepared in accordance with the provisions under Accounting Standards for Business Enterprises, and fairly reflected the Company's financial position as of December 31, 2013 after the consolidation as well as the operating results and cash flows in 2013 after the consolidation.

Union Power CPAs Co., Ltd. (Special general partnership)

Wu Yuguang

China Certified Public Accountant

Yang Junsen

China Certified Public Accountant

China • Beijing

March 26, 2014

II. FINANCIAL STATEMENT

The unit of the statement in financial annotation is: RMB yuan

1. Consolidated Balance Sheet

Compilation company: Taiji Computer Corporation Limited

Unit: Yuan

| Item | Closing balance | Opening balance |
|---|--------------------------------|--------------------------------|
| Current Assets: | | |
| Monetary Capital | 1,221,745,537.34 | 852,782,523.97 |
| Settlement reserve | | |
| Lending funds | | |
| Held for trading financial assets | | |
| Notes Receivable | 51,959,892.07 | 94,358,559.00 |
| Accounts Receivable | 1,140,516,249.62 | 862,799,753.58 |
| Advance Payment | 136,345,455.50 | 577,972,524.23 |
| Premium receivable | | |
| Account receivable reinsurance | | |
| Accounts receivable reinsurance reserve | | |
| Interests Receivable | 3,618,175.74 | 7,731,855.76 |
| Dividends Receivable | | |
| Other Receivables | 140,974,417.13 | 101,460,525.94 |
| Redemptory monetary capital for sale | | |
| Inventories | 112,908,132.65 | 71,312,701.61 |
| Non-current Assets Due within 1 Year | | |
| Other Current Assets | <u>980,935.72</u> | <u>—</u> |
| Total Current Assets | <u><u>2,809,048,795.77</u></u> | <u><u>2,568,418,444.09</u></u> |

| Item | Closing balance | Opening balance |
|-------------------------------------|--------------------------------|--------------------------------|
| Non-current Assets: | | |
| Loans and payments on behalf | | |
| Financial Assets Available for Sale | | |
| Investment Held to Maturity | | |
| Long-term Receivables | | |
| Long-term Equity Investment | 125,377,846.94 | 63,551,784.25 |
| Investment Properties | | |
| Fixed assets | 28,691,537.40 | 24,564,742.76 |
| Construction in Progress | 5,669,753.24 | 2,365,110.28 |
| Construction Materials | | |
| Disposal of Fixed Assets | | |
| Productive Biological Assets | | |
| Oil and Gas Assets | | |
| Intangible Assets | 474,515,055.96 | 16,711,904.85 |
| Development Expenditures | 7,335,595.36 | 18,375,355.11 |
| Goodwill | 374,336,612.48 | |
| Long-term Deferred Expenses | 12,148,691.86 | 11,290,484.93 |
| Deferred Income Tax Assets | 24,429,590.45 | 13,415,449.61 |
| Other Non-current Assets | | |
| Total Non-current Assets | <u>1,052,504,683.69</u> | <u>150,274,831.79</u> |
| Total Assets | <u><u>3,861,553,479.46</u></u> | <u><u>2,718,693,275.88</u></u> |

| Item | Closing balance | Opening balance |
|--|-------------------------|-------------------------|
| Current Liabilities | | |
| Short-term Borrowings | 25,000,000.00 | |
| Borrowings from central bank | | |
| Deposit taking and deposit taking of interbank | | |
| Borrowed funds | | |
| Transactional Monetary Liabilities | | |
| Notes Payable | 122,016,661.66 | 72,386,887.49 |
| Accounts Payable | 643,649,085.12 | 415,085,005.64 |
| Advance Receipt | 1,014,410,385.88 | 957,704,876.99 |
| Financial assets sold for repurchase | | |
| Fee and commission payable | | |
| Salary payable | 12,515,291.99 | 927,797.09 |
| Tax payable | 75,388,151.50 | 64,777,332.94 |
| Interests Payable | | |
| Dividends Payable | | |
| Other Payables | 67,379,148.22 | 41,499,929.05 |
| Dividend payable for reinsurance | | |
| Reserve fund for insurance contracts | | |
| Securities vicariously traded | | |
| Securities vicariously sold | | |
| Non-current Liabilities Due within 1 Year | | |
| Other Current Liabilities | | |
| Total Current Liabilities | <u>1,960,358,724.37</u> | <u>1,552,381,829.20</u> |

2. Parent Company Balance Sheet*Prepared by: Taiji Computer Corporation Limited**Unit: Yuan*

| Item | Closing balance | Opening balance |
|--------------------------------------|--------------------------------|--------------------------------|
| Current Assets: | | |
| Monetary Capital | 752,824,472.84 | 431,795,747.84 |
| Held for trading financial assets | | |
| Notes Receivable | 43,984,904.65 | 93,858,559.00 |
| Accounts Receivable | 923,230,212.84 | 773,565,358.82 |
| Advance Payment | 103,801,932.25 | 560,636,213.82 |
| Interests Receivable | 3,618,175.74 | 7,731,855.76 |
| Dividends Receivable | | |
| Other Receivables | 105,864,631.42 | 85,756,077.30 |
| Inventories | 101,967,213.49 | 70,077,982.65 |
| Non-current Assets Due within 1 Year | | |
| Other Current Assets | _____ | _____ |
| Total Current Assets | <u><u>2,035,291,543.23</u></u> | <u><u>2,023,421,795.19</u></u> |
| Non-current Assets: | | |
| Financial Assets Available for Sale | | |
| Investment Held to Maturity | | |
| Long-term Receivables | | |
| Long-term Equity Investment | 700,727,053.10 | 148,410,984.25 |
| Investment Properties | | |
| Fixed assets | 18,722,072.84 | 20,841,272.04 |
| Construction in Progress | 2,616,934.60 | 2,365,110.28 |
| Construction Materials | | |
| Disposal of Fixed Assets | | |
| Productive Biological Assets | | |
| Oil and Gas Assets | | |
| Intangible Assets | 464,916,052.21 | 12,128,571.54 |
| Development Expenditures | 1,807,809.22 | 18,375,355.11 |
| Goodwill | | |
| Long-term Deferred Expenses | 10,113,407.09 | 11,290,484.93 |
| Deferred Income Tax Assets | 19,037,741.15 | 12,874,377.09 |
| Other Non-current Assets | _____ | _____ |
| Total Non-current Assets | <u><u>1,217,941,070.21</u></u> | <u><u>226,286,155.24</u></u> |
| Total Assets | <u><u>3,253,232,613.44</u></u> | <u><u>2,249,707,950.43</u></u> |

| Item | Closing balance | Opening balance |
|--|-------------------------|-------------------------|
| Current Liabilities | | |
| Short-term Borrowings | | |
| Transaction financial liabilities | | |
| Notes Payable | 113,720,580.66 | 59,291,335.49 |
| Accounts Payable | 552,995,778.42 | 374,595,471.26 |
| Advance Receipt | 751,861,748.36 | 668,170,181.76 |
| Salary payable | 1,767,131.46 | 347,353.45 |
| Tax payable | 57,211,466.89 | 55,937,467.63 |
| Interests Payable | | |
| Dividends Payable | | |
| Other Payables | 70,476,052.03 | 35,279,193.00 |
| Non-current Liabilities Due within 1 Year | | |
| Other Current Liabilities | | |
| Total Current Liabilities | <u>1,548,032,757.82</u> | <u>1,193,621,002.59</u> |
| Non-current Liabilities: | | |
| Long-term Borrowings | | |
| Bonds Payable | | |
| Long-term Payables | | |
| Special Payables | | |
| Estimated Liabilities | | |
| Deferred Income Tax Liabilities | | |
| Other Non-current Liabilities | 4,987,649.04 | 12,465,802.99 |
| Total Non-current Liabilities | <u>4,987,649.04</u> | <u>12,465,802.99</u> |
| Total Liabilities | <u>1,553,020,406.86</u> | <u>1,206,086,805.58</u> |
| Shareholder's Equity | | |
| Share Capital | 274,411,744.00 | 237,094,080.00 |
| Capital Reserves | 1,046,913,785.13 | 514,958,560.57 |
| Less: treasury share | | |
| Special Reserves | | |
| SurAdd Reserves | 56,886,936.30 | 43,887,425.54 |
| General risk provision | | |
| Undistributed Profits | 321,999,741.15 | 247,681,078.74 |
| Converted difference in Foreign Currency Statements | | |
| Total Owner's Equity | <u>1,700,212,206.58</u> | <u>1,043,621,144.85</u> |
| Total Liabilities and Owner's Equity | <u>3,253,232,613.44</u> | <u>2,249,707,950.43</u> |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
Charger of Accounting Office

3. Consolidated Income Statement*Prepared by: Taiji Computer Corporation Limited**Unit: Yuan*

| Item | Current period incurred amount | Prior period incurred amount |
|---|---|---|
| I. Total Operating Incomes | 3,366,376,084.61 | 2,888,276,885.17 |
| Including: operating incomes | 3,366,376,084.61 | 2,888,276,885.17 |
| Interest income | | |
| Earned premium | | |
| Fee and commission income | | |
| II. Total Operating Costs | 3,206,196,617.25 | 2,750,962,192.83 |
| Including: operating cost | 2,788,463,318.04 | 2,447,517,149.41 |
| Interest cost | | |
| Service charge and commission fee | | |
| Surrender value | | |
| Net payment for insurance claims | | |
| Net cost on preparation fund of insurance contract | | |
| Bond insurance expense | | |
| Amortized reinsurance expenditures | | |
| Income Tax and Surcharges | 26,710,539.89 | 36,436,206.52 |
| Marketing expenses | 45,360,469.47 | 64,415,958.66 |
| Management expenses | 322,711,349.03 | 195,202,200.87 |
| Financial expenses | (7,635,441.51) | (12,990,663.86) |
| Asset impairment losses | 30,586,382.33 | 20,381,341.23 |
| Add: Net Income from Changes in Fair Value (loss is presented by “()”) | | |
| Investment Income (loss is presented by “()”) | 1,923,465.34 | 1,002,666.77 |
| Including: Income from Investment in Associated Enterprises and Joint Ventures | 1,826,062.69 | |
| Exchange income (loss is presented by “()”) | | |

| Item | Current period incurred amount | Prior period incurred amount |
|--|-----------------------------------|---------------------------------|
| III. Operating Profits (loss is presented by “()”) | 162,102,932.70 | 138,317,359.11 |
| Add: Non-operating Income | 32,230,777.60 | 13,520,144.92 |
| Less: Non-operating Costs | 1,712,332.97 | 761,063.33 |
| Including: Losses on Disposal of Non-current asset | 34,221.40 | 66,013.33 |
| IV. Total Profits (total losses are presented by “()”) | 192,621,377.33 | 151,076,440.70 |
| Less: Income Tax Expenses | 12,654,624.84 | 18,876,360.57 |
| V. Net Profits (net losses are presented by “()”) | 179,966,752.49 | 132,200,080.13 |
| In which: the net profit of the merged company before merger | | |
| Total Owner’s Equity Attributable to Parent Company | 176,809,800.66 | 132,227,449.04 |
| Minority Shareholder’s Equity | 3,156,951.83 | (27,368.91) |
| VI. Earnings per Share: | — | — |
| Basic Earnings per Share | 0.75 | 0.56 |
| Diluted Earnings per Share | 0.75 | 0.56 |
| VII. Other Comprehensive Earning | | |
| VIII. Total Comprehensive Earnings | 179,966,752.49 | 132,200,080.13 |
| Total Owner’s Comprehensive Earnings Attributable to Parent Company | 176,809,800.66 | 132,227,449.04 |
| Minority Shareholder’s Comprehensive Earnings | 3,156,951.83 | (27,368.91) |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
Charger of Accounting Office

4. Parent Company Income Statement*Prepared by: Taiji Computer Corporation Limited**Unit: Yuan*

| Item | Current period incurred amount | Prior period incurred amount |
|--|---|---|
| I. Operating incomes | 2,793,403,164.65 | 2,485,090,541.74 |
| Less: operating cost | 2,341,120,092.86 | 2,114,582,165.04 |
| Income Tax and Surcharges | 23,975,425.43 | 33,930,364.73 |
| Marketing expenses | 37,943,616.75 | 61,800,205.42 |
| Management expenses | 249,921,208.23 | 166,322,798.72 |
| Financial expenses | (7,316,970.37) | (12,165,276.42) |
| Asset impairment losses | 27,846,546.33 | 19,915,053.60 |
| Add: Net Income from Changes in Fair Value (loss is presented by “()”) | | |
| Investment Income (loss is presented by “()”) | 1,923,465.34 | 4,373,140.29 |
| Including: Income from Investment in Associated Enterprises and Joint Ventures | 1,826,062.69 | |
| II. Operating Profits (loss is presented by “()”) | 121,836,710.76 | 105,078,370.94 |
| Add: Non-operating Income | 15,788,115.75 | 5,681,939.89 |
| Less: Non-operating Costs | 279,527.50 | 757,310.57 |
| Including: Losses on Disposal of Non-current asset | 29,527.50 | 62,310.57 |
| III. Total Profits (total losses are presented by “()”) | 137,345,299.01 | 110,003,000.26 |
| Less: Income Tax Expenses | 7,350,191.44 | 10,851,228.88 |
| IV. Net Profits (net losses are presented by “()”) | 129,995,107.57 | 99,151,771.38 |
| V. Earnings per Share: | — | — |
| (I) Basic Earnings per Share | | |
| (II) Diluted Earnings per Share | | |
| VI. Other Comprehensive Earning | | |
| VII. Total Comprehensive Earnings | 129,995,107.57 | 99,151,771.38 |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
Charger of Accounting Office

5. Consolidated Cash Flow Statement*Prepared by: Taiji Computer Corporation Limited**Unit: Yuan*

| Item | Current period incurred amount | Prior period incurred amount |
|--|---|---|
| I. Cash Flows from Operating Activities | | |
| Cash received from Sale of Goods or Rendering of Services | 3,636,854,803.15 | 3,145,377,052.08 |
| Net increase from clients' deposit and deposit from other banks | | |
| Net increase in borrowings from central bank | | |
| Net increase in borrowings from other financial institutions | | |
| Cash of premium collected from the original insurance contract | | |
| Net cash of reinsurance business collected | | |
| Net increase from deposit of insured and investment | | |
| Net increase from disposal of tradable financial assets | | |
| Cash received from collecting interest, handling charges and commissions | | |
| Net increase in borrowings from other banks | | |
| Net increase in buy-back business | | |
| Refund of Taxes Received | 14,163,241.65 | 2,705,430.91 |
| Other Cash Received relating to Operating Activities | <u>325,310,841.28</u> | <u>209,750,218.69</u> |
| Sub-total of Cash Inflows from Operating Activities | <u><u>3,976,328,886.08</u></u> | <u><u>3,357,832,701.68</u></u> |

| Item | Current period incurred amount | Prior period incurred amount |
|--|-----------------------------------|---------------------------------|
| Cash Paid for Goods and Services | 2,752,695,150.63 | 2,409,872,883.07 |
| Net increase in clients' loan and advance in cash | | |
| Net increase from deposits in the central bank and other banks | | |
| Cash paid for compensation of the original insurance contract | | |
| Cash paid for interest, handling charges and commissions | | |
| Cash paid for policy dividend | | |
| Cash Paid to and on Behalf of Employees | 284,939,695.50 | 224,866,223.41 |
| Payments of All Types of Taxes | 127,346,791.80 | 71,483,560.31 |
| Other Cash Paid relating to Operating Activities | <u>422,037,422.13</u> | <u>460,869,447.75</u> |
| Sub-total of Cash Outflows from Operating Activities | <u><u>3,587,019,060.06</u></u> | <u><u>3,167,092,114.54</u></u> |
| Net cash flows from operating activities | <u><u>389,309,826.02</u></u> | <u><u>190,740,587.14</u></u> |
| II. Cash Flows from Investing Activities | | |
| Cash received from recovery of investments | | |
| Cash received from returns on investments | 97,402.65 | 270,597.51 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 13,200.00 | 89,822.45 |
| Net cash received from disposal of subsidiaries and other business entities | | 6,885,767.62 |
| Other cash received relating to investing activities | | |
| Sub-total of cash inflows from Operating Activities | <u><u>110,602.65</u></u> | <u><u>7,246,187.58</u></u> |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 54,303,538.30 | 429,454,915.00 |
| Cash paid to acquire investments | 60,000,000.00 | 8,900,000.00 |
| Net increase from hypothecated loan | | |
| Cash paid to acquire subsidiaries and other business entities | 27,914,868.71 | |
| Other cash payments relating to investing activities | | |
| Sub-total of cash outflows from Investing Activities | <u><u>142,218,407.01</u></u> | <u><u>438,354,915.00</u></u> |

| Item | Current period incurred amount | Prior period incurred amount |
|---|---|---|
| Net cash flows from investing activities | (142,107,804.36) | (431,108,727.42) |
| III. Cash Flows from Financing Activities | | |
| Cash received from capital contribution | 152,356,382.40 | 1,666,700.00 |
| Including: Cash Received by Subsidiaries from Capital Contribution of Minority Shareholders | | |
| Cash received from borrowings | | |
| Cash received from bonds issuing | | |
| Other cash received relating to financing activities | | |
| Sub-total of Cash Inflows from Financing Activities | <u>152,356,382.40</u> | <u>1,666,700.00</u> |
| Cash repayments of amounts borrowed | 0.00 | |
| Cash payments for interest expenses and distribution of dividends or profits | 42,132,039.10 | 28,165,590.39 |
| Including: dividend profits paid by subsidiary to minority shareholders | | |
| Other cash payments relating to financing activities | | |
| Sub-total of cash outflows from Operating Activities | <u>42,132,039.10</u> | <u>28,165,590.39</u> |
| Net cash flows from financing activities | <u>110,224,343.30</u> | <u>(26,498,890.39)</u> |

| Item | Current period incurred amount | Prior period incurred amount |
|--|---|---|
| IV. Effect of Foreign Exchange Rate Changes on Cash | | |
| V. Net Increase in Cash and Cash Equivalents | <u>357,426,364.96</u> | <u>(266,867,030.67)</u> |
| Add: Opening Balance of Cash and Cash Equivalents of the Period | <u>696,873,552.28</u> | <u>963,740,582.95</u> |
| VI. Closing Balance of Cash and Cash Equivalents of the Period | <u>1,054,299,917.24</u> | <u>696,873,552.28</u> |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
Charger of Accounting Office

6. Parent Company Cash Flow Statement*Prepared by: Taiji Computer Corporation Limited**Unit: Yuan*

| Item | Current period incurred amount | Prior period incurred amount |
|---|-----------------------------------|---------------------------------|
| I. Cash Flows from Operating Activities | | |
| Cash received from Sale of Goods or Rendering of Services | 3,039,207,914.91 | 2,551,432,856.37 |
| Refund of Taxes Received | 8,027,812.82 | 1,517,225.88 |
| Other Cash Received relating to Operating Activities | 562,422,478.13 | 212,508,994.68 |
| Sub-total of Cash Inflows from Operating Activities | 3,609,658,205.86 | 2,765,459,076.93 |
| Cash Paid for Goods and Services | 2,254,627,011.89 | 2,082,286,618.98 |
| Cash Paid to and on Behalf of Employees | 229,670,708.43 | 205,729,203.15 |
| Payments of All Types of Taxes | 93,903,793.85 | 54,203,137.57 |
| Other Cash Paid relating to Operating Activities | <u>673,219,769.53</u> | <u>450,549,322.82</u> |
| Sub-total of Cash Outflows from Operating Activities | <u>3,251,421,283.70</u> | <u>2,792,768,282.52</u> |
| Net cash flows from operating activities | <u>358,236,922.16</u> | <u>(27,309,205.59)</u> |
| II. Cash Flows from Investing Activities | | |
| Cash received from recovery of investments | | |
| Cash received from returns on investments | 97,402.65 | 270,597.51 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 49,466.13 | 89,417.45 |
| Net cash received from disposal of subsidiaries and other business entities | | 7,123,100.00 |
| Other cash received relating to investing activities | | |
| Sub-total of cash inflows from Operating Activities | <u>146,868.78</u> | <u>7,483,114.96</u> |

| Item | Current period incurred amount | Prior period incurred amount |
|--|-----------------------------------|---------------------------------|
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 37,611,189.00 | 422,968,780.99 |
| Cash paid to acquire investments | 120,382,873.50 | 27,233,300.00 |
| Cash paid to acquire subsidiaries and other business entities | | |
| Other cash payments relating to investing activities | _____ | _____ |
| Sub-total of cash outflows from Investing Activities | <u>157,994,062.50</u> | <u>450,202,080.99</u> |
| Net cash flows from investing activities | <u>(157,847,193.72)</u> | <u>(442,718,966.03)</u> |
| III. Cash Flows from Financing Activities | | |
| Cash received from capital contribution | 152,356,382.40 | |
| Cash received from borrowings | | |
| Cash received from bonds issuing | | |
| Other cash received relating to financing activities | _____ | |
| Sub-total of Cash Inflows from Financing Activities | <u>152,356,382.40</u> | |
| Cash repayments of amounts borrowed | | |
| Cash payments for interest expenses and distribution of dividends or profits | 41,684,622.43 | 28,165,590.39 |
| Other cash payments relating to financing activities | | |
| Sub-total of cash outflows from Operating Activities | 41,684,622.43 | 28,165,590.39 |
| Net cash flows from financing activities | 110,671,759.97 | (28,165,590.39) |

| Item | Current period incurred amount | Prior period incurred amount |
|--|---|---|
| IV. Effect of Foreign Exchange Rate Changes on Cash | | |
| V. Net Increase in Cash and Cash Equivalents | <u>311,061,488.41</u> | <u>(498,193,762.01)</u> |
| Add: Opening Balance of Cash and Cash Equivalents of the Period | <u>276,295,276.15</u> | <u>774,489,038.16</u> |
| VI. Closing Balance of Cash and Cash Equivalents of the Period | <u>587,356,764.56</u> | <u>276,295,276.15</u> |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
Charger of Accounting Office

7. Consolidated Statement of Changes in Owner's Equity

Prepared by: Taiji Computer Corporation Limited

Amount of Current Year

Unit: Yuan

| Item | Paid up capital | | Owner's equity belongs to parent's company | | | | | Other | Equity of minority shareholders | Total of owner's equity |
|--|-----------------------|-------------------------|--|-----------------|----------------------|------------------------|-----------------------|-------|---------------------------------|-------------------------|
| | (or share capital) | Capital Reserves | Less: treasury share | Special reserve | SurAdd reserve | General risk provision | Undistributed profit | | | |
| I. Closing Balance of Previous Year | 237,094,080.00 | 515,451,879.22 | | | 43,887,425.54 | | 357,216,746.16 | | 195,512.77 | 1,153,845,643.69 |
| Add: Changes in Accounting Policies | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | |
| Other | | | | | | | | | | |
| II. Opening Balance of Current Year | 237,094,080.00 | 515,451,879.22 | | | 43,887,425.54 | | 357,216,746.16 | | 195,512.77 | 1,153,845,643.69 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | 37,317,664.00 | 531,955,224.56 | | | 12,999,510.76 | | 121,133,355.50 | | 22,805,426.55 | 726,211,181.37 |
| (I) Net Profit | | | | | | | 176,809,800.66 | | 3,156,951.83 | 179,966,752.49 |
| (II) Other comprehensive income | | | | | | | | | | |
| Subtotal of (I) and (2) | | | | | | | 176,809,800.66 | | 3,156,951.83 | 179,966,752.49 |
| (III) Capital contributed by owners and capital decreases | 37,317,664.00 | 531,955,224.56 | | | | | | | 19,648,474.72 | 588,921,363.28 |
| 1. Stocks invested by owners | 37,317,664.00 | 531,955,224.56 | | | | | | | | 569,272,888.56 |
| 2. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | |
| 3. Others | | | | | | | | | 19,648,474.72 | 19,648,474.72 |
| (IV) Distribution of Profits | | | | | 12,999,510.76 | | (55,676,445.16) | | | (42,676,934.40) |
| 1. Appropriations to SurAdd Reserves | | | | | 12,999,510.76 | | (12,999,510.76) | | | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | |
| 3. Distribution to Owners | | | | | | | (42,676,934.40) | | | (42,676,934.40) |
| 4. Others | | | | | | | | | | |
| (V) Internal Carry-forward of Owner's Equity | | | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | | | |
| 2. Capitalized SurAdd Reserves | | | | | | | | | | |
| 3. SurAdd Reserves for Making up Losses | | | | | | | | | | |
| 4. Others | | | | | | | | | | |
| (VI) Special reserve | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | |
| (VII) Other | | | | | | | | | | |
| IV. Closing Balance of Current Period | <u>274,411,744.00</u> | <u>1,047,407,103.78</u> | | | <u>56,886,936.30</u> | | <u>478,350,101.66</u> | | <u>23,000,939.32</u> | <u>1,880,056,825.06</u> |

*Amount of Last Year**Unit: Yuan*

| Item | Paid up capital | | Amount of Last Year | | | | | | Equity of minority shareholders | Total of owner's equity |
|--|-----------------------|-----------------------|----------------------|-----------------|----------------------|------------------------|-----------------------|-------|---------------------------------|-------------------------|
| | (or share capital) | Capital Reserves | Less: treasury share | Special reserve | SurAdd reserve | General risk provision | Undistributed profit | Other | | |
| I. Closing Balance of Previous Year | 197,578,400.00 | 554,327,643.22 | | | 33,972,248.40 | | 264,541,234.26 | | 1,540,191.03 | 1,051,959,716.91 |
| Add: retroactive adjustment from merger of companies under common control | | | | | | | | | | |
| Add: Changes in Accounting Policies | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | |
| Other | 197,578,400.00 | 554,327,643.22 | | | 33,972,248.40 | | 264,541,234.26 | | 1,540,191.03 | 1,051,959,716.91 |
| II. Opening Balance of Current Year | | | | | | | | | | |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | 39,515,680.00 | (38,875,764.00) | | | 9,915,177.14 | | 92,675,511.90 | | (1,344,678.26) | 101,885,926.78 |
| (I) Net Profit | | | | | | | 132,227,449.04 | | (27,368.91) | 132,200,080.13 |
| (II) Other comprehensive income | | | | | | | | | | |
| Subtotal of (1) and (2) | | | | | | | 132,227,449.04 | | (27,368.91) | 132,200,080.13 |
| (III) Capital contributed by owners and capital decreases | | 639,916.00 | | | | | | | (1,317,309.35) | (677,393.35) |
| 1. Stocks invested by owners | | | | | | | | | | |
| 2. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | |
| 3. Others | | 639,916.00 | | | | | | | (1,317,309.35) | (677,393.35) |
| (IV) Distribution of Profits | | | | | 9,915,177.14 | | (39,551,937.14) | | | (29,636,760.00) |
| 1. Appropriations to SurAdd Reserves | | | | | 9,915,177.14 | | (9,915,177.14) | | | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | |
| 3. Distribution to Owners | | | | | | | | | | (29,636,760.00) |
| 4. Others | | | | | | | | | | |
| (V) Internal Carry-forward of Owner's Equity | 39,515,680.00 | (39,515,680.00) | | | | | | | | |
| 1. Capitalized Capital Reserves | 39,515,680.00 | (39,515,680.00) | | | | | | | | |
| 2. Capitalized SurAdd Reserves | | | | | | | | | | |
| 3. SurAdd Reserves for Making up Losses | | | | | | | | | | |
| 4. Others | | | | | | | | | | |
| (VI) Special reserve | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | |
| (VII) Other | | | | | | | | | | |
| IV. Closing Balance of Current Period | <u>237,094,080.00</u> | <u>515,451,879.22</u> | | | <u>43,887,425.54</u> | | <u>357,216,746.16</u> | | <u>195,512.77</u> | <u>1,153,845,643.69</u> |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
Charger of Accounting Office

8. Statement of changes in owners' equity for the parent company

Prepared by: Taiji Computer Corporation Limited

Amount of Current Year

Unit: Yuan

| Item | Paid up capital (or share capital) | Capital Reserves | Amount of Current Year | | | General risk provision | Undistributed profit | Owner's equity |
|---|---------------------------------------|-------------------------|-------------------------|-----------------|----------------------|---------------------------|-------------------------|-------------------------|
| | | | Less: treasury share | Special reserve | SurAdd reserve | | | |
| I. Closing Balance of Previous Year | 237,094,080.00 | 514,958,560.57 | | | 43,887,425.54 | | 247,681,078.74 | 1,043,621,144.85 |
| Add: Changes in Accounting Policies | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | |
| Other | | | | | | | | |
| II. Opening Balance of Current Year | 237,094,080.00 | 514,958,560.57 | | | 43,887,425.54 | | 247,681,078.74 | 1,043,621,144.85 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | 37,317,664.00 | 531,955,224.56 | | | 12,999,510.76 | | 74,318,662.41 | 656,591,061.73 |
| (I) Net Profit | | | | | | | 129,995,107.57 | 129,995,107.57 |
| (II) Other comprehensive income | | | | | | | | |
| Subtotal of (I) and (2) | | | | | | | 129,995,107.57 | 129,995,107.57 |
| (III) Capital contributed by owners and capital decreases | 37,317,664.00 | 531,955,224.56 | | | | | | 569,272,888.56 |
| 1. Stocks invested by owners | 37,317,664.00 | 531,955,224.56 | | | | | | 569,272,888.56 |
| 2. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | |
| 3. Others | | | | | | | | |
| (IV) Distribution of Profits | | | | | 12,999,510.76 | | (55,676,445.16) | (42,676,934.40) |
| 1. Appropriations to SurAdd Reserves | | | | | 12,999,510.76 | | (12,999,510.76) | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise | | | | | | | | |
| 3. Distribution to Owners | | | | | | | (42,676,934.40) | (42,676,934.40) |
| 4. Others | | | | | | | | |
| (V) Internal Carry-forward of Owner's Equity | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | |
| 2. Capitalized SurAdd Reserves | | | | | | | | |
| 3. SurAdd Reserves for Making up Losses | | | | | | | | |
| 4. Others | | | | | | | | |
| (VI) Special reserve | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | |
| 2. Use special reserves | | | | | | | | |
| (VII) Other | | | | | | | | |
| IV. Closing Balance of Current Period | <u>274,411,744.00</u> | <u>1,046,913,785.13</u> | | | <u>56,886,936.30</u> | | <u>321,999,741.15</u> | <u>1,700,212,206.58</u> |

*Amount of Last Year**Unit: Yuan*

| Item | Paid up capital (or share capital) | Capital Reserves | Amount of Last Year | | | General risk provision | Undistributed profit | Owner's equity |
|--|---------------------------------------|-----------------------|-------------------------|-----------------|----------------------|---------------------------|-------------------------|-------------------------|
| | | | Less: treasury share | Special reserve | SurAdd reserve | | | |
| I. Closing Balance of Previous Year | 197,578,400.00 | 554,474,240.57 | | | 33,972,248.40 | | 188,081,244.50 | 974,106,133.47 |
| Add: Changes in Accounting Policies | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | |
| Other | | | | | | | | |
| II. Opening Balance of Current Year | 197,578,400.00 | 554,474,240.57 | | | 33,972,248.40 | | 188,081,244.50 | 974,106,133.47 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | 39,515,680.00 | (39,515,680.00) | | | 9,915,177.14 | | 59,599,834.24 | 69,515,011.38 |
| (I) Net Profit | | | | | | | 99,151,771.38 | 99,151,771.38 |
| (II) Other comprehensive income | | | | | | | | |
| Subtotal of (1) and (2) | | | | | | | 99,151,771.38 | 99,151,771.38 |
| (III) Capital contributed by owners and capital decreases | | | | | | | | |
| 1. Stocks invested by owners | | | | | | | | |
| 2. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | |
| 3. Others | | | | | | | | |
| (IV) Distribution of Profits | | | | | 9,915,177.14 | | (39,551,937.14) | (29,636,760.00) |
| 1. Appropriations to SurAdd Reserves | | | | | 9,915,177.14 | | (9,915,177.14) | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | |
| 3. Distribution to Owners | | | | | | | (29,636,760.00) | (29,636,760.00) |
| 4. Others | | | | | | | | |
| (V) Internal Carry-forward of Owner's Equity | 39,515,680.00 | (39,515,680.00) | | | | | | |
| 1. Capitalized Capital Reserves | 39,515,680.00 | (39,515,680.00) | | | | | | |
| 2. Capitalized SurAdd Reserves | | | | | | | | |
| 3. SurAdd Reserves for Making up Losses | | | | | | | | |
| 4. Others | | | | | | | | |
| (VI) Special reserve | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | |
| 2. Use special reserves | | | | | | | | |
| (VII) Other | | | | | | | | |
| IV. Closing Balance of Current Period | <u>237,094,080.00</u> | <u>514,958,560.57</u> | | | <u>43,887,425.54</u> | | <u>247,681,078.74</u> | <u>1,043,621,144.85</u> |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
Charger of Accounting Office

III. COMPANY PROFILE

Taiji Computer Corporation Limited (hereinafter referred to as “the Company”) and its subsidiaries (collectively “the Group”) are jointly incorporated by investment from 15th Institute, CETC (hereinafter referred to as “15th Institute”, the major initiator), along with Beijing Jinghua Dechuang Investment Co., Ltd. and Beijing Longkai Innovation Technology Development Co., Ltd. and 7 natural persons, in accordance with State Economic and Trade Commission JMQG [2002]712 Approval on the Establishment of Taiji Computer Corporation Limited, the XYH [2001]011 Approval on the Reform and Reconstruction of Taiji Computer Corporation Limited issued by the Economic System Reform and Economic Operation Division under Ministry of Information Industry, and the Ministry of Finance CQ [2002]361 Approval of the Ministry of Finance on the Management of (fund raising) State-owned Stock Right of Taiji Computer Corporation Limited. The Group has engaged in software and information service, mainly relating to industry solution and service, IT consulting and IT product value-added service.

The Company acquired business license on September 29, 2002, with registered capital 73,879,200 yuan, registration No.: 110000005005401. Registered address: No. 211, North 4th Ring Road, Haidian District, Beijing, equity structure at the time of corporation is as follows:

| Name of shareholders | Shares held (10,000 shares) | Shareholding ratio % |
|---|--------------------------------|-------------------------|
| North China Institute of Computing Technology (15th Institute of CETC) | 4,587.92 | 62.10 |
| Beijing Jinghua Dechuang Investment Co., Ltd. | 1,800.00 | 24.36 |
| Beijing Longkai Chuangxing Technology Development Co., Ltd. | 200.00 | 2.71 |
| Liu Huaisong | 150.00 | 2.03 |
| Chai Yongmao | 130.00 | 1.76 |
| Liu Xiaowei | 130.00 | 1.76 |
| Zhang Suwei | 110.00 | 1.49 |
| Liu Aiming | 100.00 | 1.35 |
| Ma Quanlin | 90.00 | 1.22 |
| Liu Xueming | 90.00 | 1.22 |
| Total | <u>7,387.92</u> | <u>100.00</u> |

The Company has undergone equity transfers during July 2006 and March 2009, shares held by Beijing Jinghua Dechuang Investment Co., Ltd. and Beijing Longkai Innovation Technology Development Co., Ltd. had been wholly transferred to natural persons, such as Wang Xiuzhen, et al.

On September 18, 2009, the Company held the 1st temporary shareholders’ meeting of 2009, reviewed and adopted the resolution Adjustment of IPO RMB Ordinary Share (A shares) and Listing Scheme, and decided to issue A shares to the public. In accordance with

Approval of Taiji Computer Corporation Limited on IPO issued by CSRC (ZJXK [2010] No. 188) and revised articles of association, the Company has fulfilled issuance and placement of RMB ordinary shares of 25 million and registered capital has reached RMB98,789,200. Registered capital after capital increase had been verified by Reanda Certified Public Accountants which had issued capital verification report RYZ[2010] No. 1012.

Equity structure after capital increase:

| Name of shareholders | Shares held (10,000 shares) | Shareholding ratio % |
|--|--------------------------------|-------------------------|
| 15th Institute, CETC | 4,578.92 | 46.35 |
| 112 natural persons, Wang Xiuzhen, et al | 2,800.00 | 28.34 |
| Public stock shareholders | <u>2,500.00</u> | <u>25.31</u> |
| Total | <u><u>9,878.92</u></u> | <u><u>100.00</u></u> |

In accordance with Implementing Measures for the Transfer of Some State-owned Shares from the Domestic Securities Market to the National Social Security Fund, North China Institute of Computing Technology transferred 2,500,000.00 shares held in the Company to social security fund in 2010.

On April 8, 2011, the Company convened annual general meeting of shareholders in which the Pre-arranged Planning of Profit Distribution in 2010 and Transfer of Capital Reserve into Equity. On December 31, 2010, the Company transferred to all shareholders 10 shares per 10 shares by means of transferring capital reserves, with total shares of 98,789,200 as cardinal number, and 98,789,200 in total. Above plan had been fulfilled on May 24, 2011, total shares had reached 197,578,400. The registered capital after capital increase has been verified by Zhongtong CPA Co., Ltd. which has issued capital verification report ZTYZ [2011] No. 49.

On May 16, 2012, the Company convened annual general meeting of shareholders in which the Pre-arranged Planning of Profit Distribution in 2011 and Transfer of Capital Reserve into Equity. The Company transferred to all shareholders 2 shares per 10 shares by means of transferring capital reserves, with total shares of 197,578,400 as cardinal number, and 39,515,680 shares in total had increased. Above plan had been fulfilled on June 11, 2012, total shares had reached 237,094,080. The registered capital after capital increase has been verified by Zhongtong CPA Co., Ltd. which has issued capital verification report ZTYZ [2012] No. 49.

Equity structure after capital increase:

| Name of shareholders | Shares held (10,000 shares) | Shareholding ratio % |
|---|--------------------------------|-------------------------|
| 15th Institute of CETC | 10,389.41 | 43.82 |
| National Council for Social security Fund | 600.00 | 2.53 |
| Other social public A shareholders | <u>12,720.00</u> | <u>53.65</u> |
| Total | <u><u>23,709.41</u></u> | <u><u>100.00</u></u> |

In accordance with the resolution adopted in the 1st Temporary Shareholders' Meeting in 2013 and CSRC permit document [2013]1524 the Approval on Taiji Computer Corporation Limited to Issue Shares to Jiang Xiaodan et al and Purchase Assets and Raise Supporting Funds issued on December 4, 2013, the Company provides CETC private placement of RMB common stock (A shares) no more than 10,489,060 shares at face value 1 yuan, priced at 15.54 yuan/share. The registered capital after capital increase has been verified by Ruihua Certified Public Accountants (special general partnership) which has issued capital verification report RHYZ [2013] No.228A0002.

In accordance with the Asset Purchase Agreement and the Supplementary Agreement signed between the Company and Jiang Xiaodan, shareholders of Beijing Smartdot Technologies Co., Ltd., China Soft Capital (Beijing), Weixinfeng (Tianjin) Investment Partnership (Limited), and original shareholders Lv Yi and Lin Ming, as well as the resolution adopted in the 1st temporary shareholders' meeting in 2013 and the 18th session, 4th Board of Directors, Report of Taiji Computer Corporation Limited on Stock Issuance and Asset Purchase with Cash and Raising Supporting Funds and Connected Transaction, the Company has issued to original shareholders of Smartdot Technology (hereinafter referred to as "Smartdot Technology") by private placement of 26, 828,604 common stocks, 15.54 yuan per share, and original shareholders subscribed the shares issued through private placement with equity assets owned in Beijing Smartdot Technologies Co., Ltd. The capital increase has been verified by Ruihua Certified Public Accountants (Special general partnership) which has issued capital verification report RHYZ [2013] No. 228A0003.

Latest equity structure after additional issuance:

| Name of shareholders | Shares held (10,000 shares) | Shareholding ratio % |
|------------------------------------|--------------------------------|-------------------------|
| 15th Institute, CETC | 10,389.41 | 37.86 |
| CETC | 1,048.91 | 3.82 |
| Other social public A shareholders | <u>16,002.85</u> | <u>58.32</u> |
| Total | <u><u>27,441.17</u></u> | <u><u>100.00</u></u> |

Business scope of the Company: permitted business scope: None; general business scope: technical development, design, manufacturing, sale and maintenance of electric computer and periphery equipment, integrated circuit, software and communication equipment; undertake computer network and application engineering; design, technical consulting and installation of integrated information system, electronic system engineering and intelligent building engineering; contracting; design and installation of safety protection engineering; information system planning, design, testing and consulting; import and export of commodities and technologies by itself and by proxy, with the exception of those restricted or prohibited by the nation.

The Group's parent company is CETE.

The financial report had been approved by the resolution on March 26, 2014.

IV. THE COMPANY'S MAJOR ACCOUNTING POLICY, ACCOUNTING ESTIMATION AND PRIOR PERIOD ERROR

1. Financial statement compilation basis

The Group prepared financial statement on the basis of going-concern assumption, actually occurred transactions and matters, in accordance with ASBE- Basic Norms, 38 Specific Accounting Standards issued by the Ministry of Finance on February 15, 2006, and the Application Guide of ASBE, Interpretation and other rules (collectively "Accounting Standards for Business Enterprises") subsequently issued and No. 15 Regulation on the Preparation and Information Disclosure of Companies Issuing Public Shares: General Requirements for Financial Reports (revised in 2010) issued by CSRC.

In accordance with relevant rules in ASBE, the Group records financial accounting on accrual basis. Except some financial instruments, the financial statement is recorded at historic cost and in case of asset impairment, corresponding impairment provision would be made according to relevant rules.

2. Statement of ASBE compliance

The financial statement prepared by the Group conforms to the requirement of ASBE which truly and completely reflects the financial condition of the Company and Group as of December 31, 2013 and the business performance and cash flow in 2013. In addition, the financial statement of the Group and Company has, in all material aspects, conformed to the disclosure requirements for financial statement and its notes specified in No. 15 Regulation on the Preparation of Information Disclosure of Companies Issuing Public Shares: General Requirements for Financial Reports (revised in 2010) issued by CSRC.

3. Accounting period

The accounting periods are divided into annual and interim, the latter refers to a report period shorter than a whole accounting year. The accounting year starts on 1 January and ends on 31 December of Gregorian calendar.

4. Reporting currency

RMB is the currency used in the main economic environment where the domestic entities of the Company are located, and RMB is adopted as the recording currency of the Company. RMB is adopted for the financial statements of the Company.

5. Accounting treatment for business combination under common control and not under common control*(1) Business combination under common control*

Business combination under common control is deemed as assets and liabilities that the merging party obtain in a business combination, shall be recorded on the basis of their carrying amount in merged party on the date of combination. The difference between the carrying amount of the net assets which the merging party obtains and the carrying amount of the consideration which it pays shall adjust the additional paid-in capital. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

(2) Business combination not under common control

For a business combination not under common control, the combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree. The positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquire shall be recognized as business reputation; the negative balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree shall be recorded into the profits and losses of the current period after recheck and confirmation.

6. Specific accounting policies relating to equity disposal step-by-step and loss of control power*(1) Criteria for “package deal”*

None

(2) Accounting treatment method for “Package deal”

None

(3) Accounting treatment method for non-“package deal”

None

7. Preparation of consolidated financial statements

(1) Preparation of consolidated financial statements

(1) Principle for confirmation of the scope of consolidated financial statements

The scope of consolidation of consolidated financial statements shall be determined on the basis of control. The term ‘control’ means that one enterprise can control the financial and operational policies of another enterprise and, based thereon, secure the right to benefit from the business activities of the other enterprise.” The consolidation scope includes the company and all of its subsidiaries. A subsidiary refers to the enterprise or entity controlled by the company.

(2) Preparation of consolidated financial statements

The date on which the Group effectively obtains or loses control of its subsidiaries are considered as the combination or acquisition date. For a subsidiary already disposed of, its operating results and cash flows before the disposal date are appropriately included in the consolidated income statement and the consolidated cash flow statement; for a subsidiary disposed of during the current period, no adjustments are made to the opening balance of the consolidated balance sheet. Where a subsidiary has been acquired through business combination not relating to enterprises under common control, the subsidiary’s operating results and cash flows after the acquisition date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and no adjustments are made to the opening balance and comparative figures of the consolidated financial statements. Where a subsidiary has been acquired through a business combination involving enterprises under common control, the subsidiary’s operating results and cash flows from the beginning of the reporting period to the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and adjustments are made to the comparative figures of the consolidated financial statements accordingly.

If the accounting policies or accounting period adopted by a subsidiary are different from those adopted by the parent company, necessary adjustments shall be made to the financial statements under the accounting policies and or accounting period adopted by the parent company. For the subsidiary acquired through merger of enterprise not under same control, its financial statement shall be adjusted on the basis of the fair value of net identifiable assets on the purchase date.

All material intercompany balances, transactions and unrealized gains within the Group are eliminated upon consolidation of financial statement. A subsidiary’s shareholder equity, and the portion of net profits or losses and of consolidated income not attributable to the company shall be respectively treated as minority interest, minority interest income and the total consolidated income attributable to minority shareholders and presented as “Minority interest”, “Net profit” and “Total consolidated income” respectively in the consolidated financial statement. The deficit of current period exceeding the share in the beginning of owner’s equity, the balance shall offset against the minority shareholder’s equity.

When an entity loses control of a subsidiary resulting from the disposal of part of the investment or other reasons, the investment retained in the former subsidiary is re-accounted at its fair value at the date when control is lost. The consideration received in the disposal of the equity investment and the fair value of remaining part of the equity investment, deducting net assets proportion calculated by original share percentage since the acquisition date should be recorded in the investment income for the current period of the disposal. Other comprehensive income related to the equity investment in original subsidiary before disposal date should be transferred to the investment income for the current period of the disposal at the time of loss of control right. The Company has conducted subsequent accounting of remaining equity in accordance with ASBE No. 2 Long-term Equity Investment or No. 22 Recognition and Accounting of Financial Instrument, detailed in Notes IV, 10 “Long-term Equity Investment” or Notes IV, 7 “Financial Instrument”.

Where the enterprise provided equity investment in subsidiary until loss of control power through multiple transaction step-by-step disposal, the Company shall conduct accounting treatment of each transaction in accordance with Notice on Preparing 2009 Annual Report of Listed and Unlisted Enterprises Adopting China Accounting Standards (CK [2009]16) and ASBE Interpretation No. 4 (CK [2010]15). If the transactions are package deals, the transactions shall be subject to accounting treatment as the transaction relating to disposal of subsidiary and loss of control power; the difference between disposal price before loss of control power and net asset percentage of the subsidiary enjoyed in relation to the disposal shall be recognized as other comprehensive income in combined statement and at the time of loss of control power, converted into the gain or loss in the period in which control power is lost.

(2) Where the equity of the same subsidiary is bought and sold, or sold and then bought in two consecutive fiscal years, the relevant accounting treatment method shall be disclosed.

None

8. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits readily available for the payment of and investment holdings of short-term (to be due within 3 months from the purchase date), highly liquid and readily convertible to known amounts of cash, with an insignificant risk of changes in value.

9. Foreign currency business and foreign currency statement translation

(1) Foreign currency business

None

(2) Conversion for financial statements denominated in foreign currency

(1) Accounting method for transactions denominated in foreign currency

Concerning the foreign-currency transactions that occurred, the foreign currency shall be converted into the recording currency according to the middle price of the market exchange rate disclosed by the People's Bank of China on the date of the transaction. Among the said transactions that occurred, those involving foreign exchanges shall be converted according to the exchange rates adopted in the actual transactions.

(2) Conversion method of foreign-currency monetary items and foreign-currency non-monetary items

On the balance sheet date, the foreign-currency monetary items shall be converted into the recording currency according to the spot exchange rates on the Balance Sheet Date. The resulting balance of exchange shall be recognized as gains/losses from foreign exchange, except that: ① the exchange gain/loss caused by the foreign-currency borrowings related to purchasing fixed assets shall be handled according to the principle of capitalizing borrowing expenses; ② the exchange gain/loss caused by the change in the book balance of foreign-currency monetary items for sale except amortized cost recorded in the other comprehensive income, shall be recorded into the current profit and loss.

On the balance sheet date, the foreign-currency non-monetary items recorded by historical cost shall be converted according to the spot exchange on the date of the transaction. The foreign-currency non-monetary items recorded by fair value shall be converted according to the spot exchange on the date when the fair value is recognized, and the difference between the recording-currency amount and the original book recording-currency amount shall be recognized as the gain/loss from fair value changes (including change in exchange rate) and recorded into the gain/loss of the current period.

(3) Conversion method for foreign currency financial statement

When the company's consolidated statements involve overseas businesses, the exchange differences resulting from fluctuation in exchange rates will be listed into "foreign currency translation differences" under owner's equities in case of foreign currency monetary items of net overseas investments. The foreign currency monetary items shall be recorded into current profits and losses when the overseas businesses are disposed.

Foreign current financial statement relating to overseas business operation shall be converted into RMB statement in the following methods: The asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except for the items as "undistributed profits", other items shall be translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit statements shall be translated at the spot exchange rate of the transaction date. Undistributed profit in the beginning of year is the undistributed profit in the end of last year after conversion; the profit after conversion of undistributed profit in the end of the year shall be specified by items; the difference between asset type project after conversion and the total number of liability type project and shareholder equity shall be the

foreign currency translation reserve, and separately specified in the shareholder equity item in balance sheet recognized as other comprehensive income. To dispose overseas business operation and loss of control power, the foreign currency statement translation difference related to overseas business operation, listed under shareholder equity in balance sheet, shall be fully or, in proportion to the percentage of overseas operation, converted into gains or loss in the current period.

The exchange rate used for the translation of cash flows in a foreign currency shall be the spot exchange rate on the date of the cash flows. The effect of a change in exchange rate on cash shall, as an adjustment item, separately presented in the cash flow statement.

Balance in the beginning of year and the actual amount of last year shall be listed according to the amount after conversion of financial statement of last year.

10. Financial instrument

None

(1) Classification of financial instruments

Financial assets purchased or sold in common manner shall be recognized or derecognized at the transaction date, interest generated from the transaction of the relevant asset and liability shall be accrued and recognized after the ownership is transferred on the settlement date. Financial assets are initially recognized and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, held-to-maturity investment, loans and receivables as well as held-for-sale financial assets. The initially recognized financial assets are recorded at the fair value. For the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, the relevant transaction expenses are included in the current profit and loss; and for other financial assets, the relevant transaction expenses are included in the initial recognition amount.

(2) Confirmation basis and accounting method for financial instrument

(1) Financial assets which are recorded at their fair value and the variation of which is recorded into the profits and losses of the current period

Include tradable financial assets and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss.

Tradable financial assets refer to the financial assets which comply with one of the following conditions: A. The financial assets are mainly purchased for being sold in the near future; B. The financial assets are part of identifiable financial instrument portfolio for which centralized management is carried out, and objective evidence shows that the Company will manage the portfolio for making a profit in the near future; C. The financial assets are derivative instruments, except derivative instruments designated as effective hedging instruments, the financial guarantee contract, the derivative instruments which

there is no quoted price in the active market and the fair value of which cannot be reliably calculated, investment linked and which are settled through the delivery of equity instrument.

Only the financial assets that meet any of the following requirements can be designated, when they are initially recognized, as a financial asset as accounted at its fair value and whose variation is included in the current profits and losses: A. The designation is able to eliminate or obviously reduce the discrepancies in the recognition or accounting of relevant gains or losses arising from the different basis of accounting of the financial asset or financial liability; B. The official written documents of risk management or investment strategies of the enterprise concerned have described that the said combination of financial assets, the said combination of financial liabilities, or the combination of financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and will be reported to the key management personnel.

The financial liabilities which are recorded at their fair values and whose variation is included into the current profits and losses shall be subsequently at its fair value, the gains or loss from variation of fair value and the dividend and interest income related to the financial asset shall be included in the current profits and losses.

(2) The investments which will be held to their maturity

The term “held-to-maturity investment” refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the Group holds for a definite purpose and is capable to hold until its maturity.

Held-to-maturity investment is subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

Effective interest rate method refers to the method by which the amortized cost as well as the interest income or expenditure in previous periods are calculated with effective interest rate of the financial asset or liability (including financial asset or liability portfolio). Effective interest rate refers to the interest rate by which the future cash flow of financial asset or liability is discounted as the current book value during the estimated duration or applicable short duration.

When effective interest rate is calculated, the Company will estimate the future cash flow according to all contract terms of the financial asset or liability (taking no account of future credit loss) and take account of various charges, transaction expenses, reduced prices or premium as part of effective interest rate paid or received by various parties to financial asset or liability contract.

(3) Loans and receivables

Loans and receivables refer to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo-amount is fixed or determinable. The loans and receivables of the Company include notes receivables.

Loans and receivables shall be subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

(4) Financial assets available for sale

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale and those are not classified as financial assets at FVTPL, loans and receivables and held-to-maturity investments.

For financial assets available for sale, subsequent accounting is carried out at the fair value, the profit or loss generated from the change in the fair value, except that impairment loss and balance of exchange related to foreign currency financial asset and amortized cost are included in the current profit and loss, are included in other comprehensive income and included in the current profit and loss when the financial asset is derecognized. However, the equity instrument investment available for sale for which there is no quoted price in the active market and the fair value cannot be reliably calculated is recorded at its cost.

The interest achieved and cash dividends declared by the invested unit during the period when the financial asset is held are included in income from investment.

(3) Recognition and accounting method for transfer of financial assets

The financial asset meeting one of the following conditions are derecognized: ① The contractual right to receive the cash flow of the financial asset is terminated; ② The financial asset is transferred and almost all risks and rewards generated from the ownership of the financial asset have been transferred to the transferee; ③ The financial asset is transferred, the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset but has given up the control to the financial asset.

If the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset and has not given up the control to the financial asset, the relevant financial asset and corresponding financial liability shall be recognized to the extent that the transferred financial asset continues to be involved in. The extent that the transferred financial asset continues to be involved in refers to the risk level faced by the Company caused by the change in the value of financial asset.

If the financial asset transferred as a whole meets the conditions of derecognition, the difference between the book value of financial asset and the sum of the consideration received because of transferring the financial asset and the change in fair value originally included in other comprehensive income shall be included in the current profit and loss.

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped be

apportioned according to their respective relative fair value. And the difference between the book value of the portion whose recognition has been stopped, and the sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in other comprehensive income which is corresponding to the portion whose recognition has been stopped shall be included into the profits and losses of the current period.

(4) Derecognition of financial liabilities

Liabilities only if the whole or partly of the current obligation of the financial liabilities of the Company is relieved, should derecognize the financial liabilities or partly of it. The Company (debtor) signs an agreement with creditor to assume new financial liabilities and replace the existing financial liabilities and the contract terms of new financial liabilities differ in essence from those of existing financial liabilities, the existing financial liabilities are derecognized and the new financial liabilities are recognized.

For the financial liabilities are derecognized in whole or in part, the difference between the book value of the portion whose recognition has been stopped and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) is included in the current profit and loss.

(5) Recognition method for fair value of finance asset and liability

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial instrument by the Group. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency etc, and represent prices of actual market transactions on an arm's length basis. If no active market exists for a financial instrument, the Group establishes fair value by using a valuation technique, which includes using recent market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

(6) Impairment test method and impairment provision withdrawing method for financial assets (exclusive of receivables)

Apart from financial assets recorded by fair value and whose changes included in current profit or loss, the Group conducts, on balance sheet date, check up over the carrying value of the financial assets. If there is objective evidence that a particular financial asset is impaired, provision for impairment is made.

Objective evidence that a financial asset is impaired, refers to matters that after initial recognition of the financial asset the actual financial assets incurred, the estimated future cash flows affected, and the Group can reliably measure the effect.

The Company makes an independent impairment test on the financial asset with significant single amount; for the financial asset without significant single amount, an independent impairment test is carried out for the financial asset or an impairment test is carried out for the financial asset portfolio with similar credit risk. If the independent impairment test shows no impairment loss, the financial asset (including the financial asset with significant single amount or without significant single amount) shall be included in the financial asset portfolio for another impairment test. If the independent impairment test shows impairment loss, the financial asset shall not be included in the financial asset portfolio for another impairment test.

(1) Impairment of held-to-maturity investment, loans and accounts receivables

For the financial asset recorded on the basis of costs or post-amortization costs, the book value is written down to present value of estimated future cash flow, the written-down amount is recognized as impairment loss and included in the current profit and loss. If there is any objective evidence showing that the value of such financial asset has been recovered and is objectively related to the subsequent events that occur after the losses were recognized, the originally recognized impairment losses are reversed, the book value of the financial asset after the impairment losses is reversed shall not more than the amortized cost at the reversing date if the impairment provision is not accrued.

(2) Impairment of available-for-sale financial assets

The objective evidences showing that available-for-sale financial assets have been impaired include severe or non-transient depreciation of the fair value of equity instrument investment. The Company makes an independent impairment test on available-for-sale equity instrument investment on the date of balance sheet date, if the fair value of such equity instrument investment is lower than 50% (including 50%) of its initial cost of investment on the date of balance sheet date or has been lower than its initial cost of investment for more than one year (including one year), such equity instrument investment is impaired; if the fair value of such equity instrument investment is lower than 20% (including 20%) but not to 50% of its initial cost of investment on the date of balance sheet date, the Company will comprehensively consider other relevant factors, including the rate of price fluctuation, etc., to judge whether such equity instrument investment is impaired. The Company calculates the initial cost of investment of available-for-sale equity instrument investment with weighted average method.

Where AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognised directly in capital reserve are reversed and charged to profit or loss for the current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortised, current fair value and impairment losses previously recognised in profit or loss.

If, in a subsequent period, the carrying amount of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed. The reversal of impairment losses of AFS equity instruments is recognised in equity, and the impairment losses of AFS debt instruments are recognised in profit or loss for the current period.

Impairment losses incurred by the following are not reversed: (1) investments in an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably calculated; or (2) derivatives financial assets linked to and must be settled by delivery of such an unquoted equity instrument.

Recognition standard for sorts of available-for-sale financial asset impairment

(7) If held-to-maturity investment that is not matured is reclassified into available-for-sale financial asset, it is required to specify the basis for change of the holding purpose or ability.

None

11. Recognition standard and provision withdrawing method for receivables bad-debt provision

The Group would check book value of corresponding receivables on balance sheet date and will make impairment provision if any impairment is demonstrated by the following objective evidences: ① Significant financial difficulty of obligor; ② A breach of contract, such as a default or delinquency in interest or principal payments; ③ It becoming probable that the borrower will enter bankruptcy or other finance reorganization; ④ Other objective evidence indicating there is an impairment of a financial asset.

(1) Bad-debt provision for receivables with significant single amounts

| | |
|--|--|
| Criterion and amount of individually significant receivables | The Group recognizes receivables of over RMB10,000,000.00 as individually significant receivables. |
|--|--|

| | |
|--|---|
| Withdrawing method for single item with significant amounts and single-item provision for bad debt | The group shall conduct impairment test for receivables with significant single amounts. Where, upon independent test, the financial asset has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. The receivables which have suffered from an impairment loss in any single amount shall not be included in any combination of receivables with similar risk features for any impairment test. |
|--|---|

(2) Receivables with bad-debt provision based on combination

| Combination name | Withdrawing method for bad-debt provision based on combination | Confirm the basis for combination |
|------------------------------|---|---|
| Reserve | Other methods | Deem the nature of receivables as credit risk feature |
| Combination of related party | Other methods | Deem receivables and relation with trading object as credit risk feature |
| Combination of account years | Account age analysis method | In addition to above combinations, deem the account age of receivables as credit risk feature |

In the portfolios, adopting account age analysis method to set aside bad debt provision:

Applicable Inapplicable

| Account age | Withdrawal proportion for accounts receivable (%) | Withdrawal proportion for other accounts receivable (%) |
|---|--|--|
| Within 6 months (including 6 months, similarly hereinafter) | 0% | 2.5% |
| 7–12 months | 2.5% | 2.5% |
| 1–2 years | 5% | 5% |
| 2–3 years | 15% | 15% |
| 3–4 years | 35% | 35% |
| 4–5 years | 80% | 80% |
| More than 5years | 100% | 100% |

In the portfolios, adopting balance percentage method to set aside bad debt provision:

Applicable Inapplicable

In the portfolios, adopting other methods to set aside bad debt provision:

Applicable Inapplicable

(3) *Accounts receivable with an insignificant single amount but for which the bad debt provision is made individually*

Reason of individually withdrawing provision

The characteristics of non-significant accounts receivable which result in independent impairment test include: the accounts receivable for which there are disputes, lawsuit or arbitration; the accounts receivable for which there are obvious evidences showing that the debtor is not likely able to perform the repayment obligation, etc.

Reason of individually withdrawing provision

The Group would separately conduct impairment test for receivables with not significant single amount but with the following characteristics. When objective evidence demonstrates the sign of impairment, confirm impairment loss and set aside the provision of impairment on the basis of the difference of its future cash flow value less than book value.

12. Inventory

(1) *Category of Inventory*

Inventory mainly includes the raw material, commodity stocks, goods in transit, cost of unfinished projects, low priced and easily worn articles, etc.

(2) *Valuation method for stocks in transit*

Evaluation method: specific identification

The inventories are priced at the actual cost when acquiring. Inventory cost includes procurement cost, processing cost and other costs. The requisition and outgoing inventory should be based on specific identification.

(3) *Confirmation basis of net realisable value of inventory*

On the date of balance sheet date, the inventories are recorded at the lower of the costs and the net realizable value. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made and be included in the current profits and losses. The provision for the loss on decline in value of inventories is usually made based on the deference between the cost of individual inventory item and its net realizable value for large quantity and low value items of inventories, provision may be made based on categories of inventories. For the inventories which are related to the series of products manufactured and sold in a same area, and of which the final use or purpose is identical or similar thereto, and if it is difficult to account them by separating them from other items, the provision for loss on decline in value of inventories may be made on a combination basis.

After the provision for the loss on decline in value of inventories is made, if the influence factors against which the value of inventory is written down have been disappeared and the net realizable value is higher than its book value, the accrued provision for the loss on decline in value of inventories shall be reversed and included in the current profit and loss.

(4) Inventory system for stocks

Inventory system: perpetual inventory system

(5) Amortization method for low priced and easily worn articles and packing materials

Low priced and easily worn articles

Amortization method: one-off amortization method.

Low priced and easily worn articles and packing materials should be amortized with one-off amortization method when being used.

Packing materials amortization method:

13. Long-term equity investment

(1) Confirmation of investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment is the absorbing party's share of the carrying amount of the shareholders' equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired is the cost of acquisition. For the long-term equity investment acquired through means other than a business combination, the cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree. Costs incurred by the absorbing party that are directly attributable to the combination, including audit fees, valuation fees and legal fees, shall be charged to profit or loss in the period in which they are incurred. The transaction fees which the purchasers pay for insurance of equity securities or debt securities shall be calculated into the initial amount of the equity securities or debt securities.

The long-term equity investment acquired through means other than a business combination is initially recorded at its cost. The cost, dependent on the acquisition of long-term equity investment, may be respectively confirmed according to the cash purchase price actually paid by the Group, fair value of equity securities issued by the Group, the value of investment contract or agreement, the fair value or original book value of assets surrendered in the swap trading of non-monetary assets, the fair value of long-term equity

investment, etc. The expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenditure shall be included into the investment cost.

(2) Subsequent accounting and recognition of profit and loss

Where the Group does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value cannot be reliably calculated, a long-term equity investment is accounted for using the cost method. Where the Group can exercise joint control or significant influence over the investee, a long-term equity investment is accounted for using the equity method. Where the Group does not have control, joint control or significant influence over the investee and the fair value of the long-term equity investment can be reliably calculated, the investment is accounted for as an available-for-sale financial asset or the financial assets calculated with fair value and its variation included into the profit and loss in current period. In addition, a long-term equity investment where the Group can exercise control over the investee is accounted for using the cost method.

- ① Where a long-term equity investment is accounted for using the cost method, a long-term equity investment is accounted at initial investment cost. Investment income recognised is limited to the amount distributed to it out of accumulated net profits of the investee that arose after the investment was made. Any cash dividends or distributions received in excess of this amount are treated as return of initial investment cost to reduce the carrying amount of the investment.
- ② For a long-term equity investment accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long-term equity investment is adjusted accordingly. Under the equity method, investment income or loss represents the Group's share of the net profits or losses made by the investee for the current period. The Group recognises its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the acquisition date, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. For the unrealized profit or loss between the Group and an associate or joint venture, the part belongs to the Group, calculated with ratio held by the Group, should be offset. Accordingly, the Group recognizes investment income. But if the unrealized loss is related with an impairment of the assets transferred between the Group and the investee, according to the Accounting Standards for Business Enterprises No.8 — Impairment of Assets, the loss cannot be offset. For any changes in shareholders' equity other than net profits or losses in the investee, the Group adjusts the carrying amount of the long-term equity investment and includes the corresponding adjustment in other comprehensive income of capital reserve. The Group's share of net losses of the investee is recognised to the extent that

the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Group has to assume additional obligations, the estimated obligation assumed is provided for and charged to the profit or loss as investment loss for the period. Where the investee records profits in subsequent periods, the Group resumes recognising its share of profits after setting off profits against the unrecognised share of losses. For a long-term equity investment in an associate or joint venture held prior to first-time adoption date of new CASs, January 1, 2007, if an equity investment debit balance associated with the investment exists, the amount amortised on a straight-line basis during the remaining period is recognised in profit or loss for the current period.

- ③ For acquisition of minority interests in the consolidated financial statements, the difference between the following two amounts is adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess is adjusted to retained earnings. (1) the additional long-term equity investment due to acquisition of minority interests; and (2) the Group's interest of net assets calculated continually since acquisition date (or combination date) based on the additional share proportion.
- ④ For disposal of a long-term equity investment in the consolidated financial statements, when the Group partially disposes long-term equity investments of subsidiaries without losing its control over them, the difference between the proceeds actually received and the Group's interest of net assets calculated based on the disposed long-term equity investments is recognised in equity.

(3) Criteria for recognition of joint control or significant influence over an investee

“Control” is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. “Joint control” is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Where an investing enterprise can exercise joint control over the investee, the investee is its jointly controlled enterprise. “Significant influence” is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Where an investing enterprise is able to exercise significant influence over an investee, the investee is its associate. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible is considered.

(4) Method of impairment test and of impairment provision

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If the recoverable amount of an asset is less than its carrying amount, the difference is recognised as an impairment loss and charged to profit or loss for the current period. Once an impairment loss on long-term equity investment is recognised, it is not reversed in a subsequent period.

14. Investment property

None

15. Fixed assets

(1) Recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of services, for rental to others, or for administrative purposes and have useful lives more than one accounting year.

(2) Affirmation basis and valuation method for fixed assets under financing lease

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. The fixed asset that is acquired under finance lease should be depreciated with the policy for leased assets consistent with that for owned fixed assets. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

(3) Depreciation method for various fixed assets

The cost and expected discard expenses should be taken into consideration in the ascertainment of the cost of a fixed asset. When fixed assets are ready for their intended use, depreciation begins from the following month with straight-line service life depreciation method within its service life.

| Type | Useful Life (year) | Residual Value Rate (%) | Annual Depreciation Rate |
|-------------------------|-----------------------|-------------------------------|-----------------------------|
| Houses and buildings | 30–50 | 5% | 1.90%–3.17% |
| Machinery and equipment | 11 | 5% | 8.64% |
| Electronic equipment | 5–10 | 5% | 9.50%–19.00% |
| Transport equipment | 3–5 | 5% | 19.00%–31.67% |
| Other equipment | 5–9 | 5% | 10.56%–19% |

(4) Impairment test method for fixed asset and withdrawing method for impairment provision

For fixed assets, the Group would confirm if there is any indication of impairment on the balance sheet date and when there is some indication that the impairment has occurred, the recoverable amount of the asset should be estimated and impairment test shall be conducted. Where impairment test result demonstrates the recoverable amount of assets is lower than its carrying value, the provision of impairment should be provided on the basis of its difference and included into the loss of impairment. The recoverable amount of an asset is defined as the higher of its net realizable value or its present value for expected future cash flow. The fair value of asset should be determined according to the price confirmed in sales agreement in the fair dealing; Where there is no sales agreement but there is an active market of assets, the fair value shall be determined according to the price bidden by the buyer of the asset. Where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available. The disposal expenses include the relevant legal expenses, relevant taxes, portorage, as well as the direct expenses for bringing the asset into a marketable state. The current value of the expected future cash flow of an asset shall, according to the expected future cash flow generated during the continuous use or final disposal of an asset, choose an appropriate capitalization rate to determine the post-capitalization amount. Provision for the impairment of assets should be calculated and confirmed on the basis of single item assets and if difficult to estimate the recoverable amount of single item asset, determine the recoverable amount of the asset group to which the asset is belonged. Asset group is the minimum asset portfolio that can independently generate cash inflow.

(5) *Others*

Subsequent expenditures incurred for a fixed asset is included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Group and the relevant cost can be calculated reliably; meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditure that fail to meet the capitalisation criteria is charged to profit or loss when incurred.

When a fixed asset is sold, transferred, retired or damaged, the Group recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used is accounted for as a change in an accounting estimate.

16. Construction in progress

(1) *Category of construction in process*

Construction in process includes the own-account construction, contracted building construction and equipment installation project.

(2) *Standard and time for construction in process converted into fixed assets*

Construction in process would be converted into fixed asset when ready for attended serviceable condition.

(3) *Impairment test method and impairment provision withdrawing method for construction in process*

For construction in process, the Group would confirm if there is any indication of impairment on the balance sheet date and when there is some indication that the impairment has occurred, the recoverable amount of the asset should be estimated and impairment test shall be conducted. Where impairment test result demonstrates the recoverable amount of assets is lower than its carrying value, the provision of impairment should be provided on the basis of its difference and included into the loss of impairment. The recoverable amount of an asset is defined as the higher of its net realizable value or its present value for expected future cash flow. The fair value of asset should be determined according to the price confirmed in sales agreement in the fair dealing. Where there is no sales agreement but there is an active market of assets, the fair value shall be determined according to the price bidden by the buyer of the asset. Where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available. The disposal expenses include the relevant legal expenses, relevant taxes, portorage, as well as the direct expenses for bringing the asset into a marketable state. The current value of the expected future cash flow of an asset shall, according to the expected future cash flow generated during the continuous use or final

disposal of an asset, choose an appropriate capitalization rate to determine the post-capitalization amount. Provision for the impairment of assets should be calculated and confirmed on the basis of single item assets and if difficult to estimate the recoverable amount of single item asset, determine the recoverable amount of the asset group to which the asset is belonged. Asset group is the minimum asset portfolio that can independently generate cash inflow.

17. Borrowing costs

(1) Recognition principle for capitalization of borrowing costs

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the amount of interest to be capitalized on such borrowings is determined by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

(2) During capitalization of borrowing costs

For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, capitalization of such borrowing costs can commence only when all of the following conditions are satisfied: (1) expenditures for the asset are being incurred; (2) borrowing costs are being incurred; and (3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalization of such borrowing costs ceases when the qualifying assets being acquired, constructed or produced become ready for their intended use or sale. The amount of other borrowing costs incurred is recognized as an expense in the period in which they are incurred.

(3) Period of capitalization suspension

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and when the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production is resumed.

(4) Method to calculate the amount of borrowing costs to be capitalized

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the amount of interest to be capitalized on such borrowings is determined by applying a capitalization rate to the weighted average of

the excess amounts of cumulative expenditure on the asset over and above the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

Exchange differences arising from specific-purpose borrowings in foreign currencies that are during the capitalization period shall be capitalized; Exchange differences arising from general-purpose borrowings in foreign currencies shall be included in the loss and profit of current period.

18. Biological assets

19. Oil and gas assets

20. Intangible asset

(1) Valuation method, service life and depreciation test

Intangible asset refers to the identifiable non-monetary assets without physical substance owned or controlled by the Company.

An intangible asset shall be recorded initially at cost. Expenditure related to intangible asset, if the relevant economic benefit may flow into the Company and its cost can be reliably calculated, is included in the cost of the intangible asset. Otherwise, the expenditure is included in the current profit and loss.

Land use rights acquired are usually accounted as intangible assets. For self-constructed plants and other building, the expenditure related to land use rights and construction cost are accounted as intangible asset and fixed assets respectively. For purchased houses and buildings, the relevant prices are amortized among land use rights and construction cost, if the relevant prices cannot be amortized; they are treated as fixed assets.

(2) Service life estimation for intangible assets with limited service life

The Group would generally consider the following factors while estimate the service life of intangible assets with limited service life: General life cycle of the product produced with the asset, service life information of similar assets available; condition of present stage in terms of technology and process and the estimation of future development trend; information regarding the products produced with the asset, or the labor market demand; actions expected to be taken by existing or potential competitor; expected maintenance expenditure for maintenance of the assets and the company's expected payment capacity; relevant legal regulations or similar limitation on the asset control period, such as franchise period of use, lease term, etc.; correlation with service life of other assets held by the company, etc.

| Items | Expected service life | Basis |
|--------------------|-----------------------|-------|
| Land use right | 50 years | |
| Software purchased | 10 years | |
| Copyright | 5 years | |

(3) *Criterion for intangible assets with uncertain service life*

(4) *Withdrawing provision for impairment of intangible assets*

For intangible assets with limited service life, the Group would confirm if there is any indication of impairment on the balance sheet date and when there is some indication that the impairment has occurred, the recoverable amount of the asset should be estimated and impairment test shall be conducted. For the intangible assets with uncertain service life and without up to serviceable condition, regardless of the sign of impairment or not, impairment test should be conducted annually.

Where impairment test result demonstrates the recoverable amount of assets is lower than its carrying value, the provision of impairment should be provided on the basis of its difference and included into the loss of impairment. The recoverable amount of an asset is defined as the higher of its net realizable value or its present value for expected future cash flow. The fair value of asset should be determined according to the price confirmed in sales agreement in the fair dealing; Where there is no sales agreement but there is an active market of assets, the fair value shall be determined according to the price bidden by the buyer of the asset. Where there is no sales agreement and no active market of assets, the fair value of an asset shall be estimated in light of the best information available. The disposal expenses include the relevant legal expenses, relevant taxes, portorage, as well as the direct expenses for bringing the asset into a marketable state. The current value of the expected future cash flow of an asset shall, according to the expected future cash flow generated during the continuous use or final disposal of an asset, choose an appropriate capitalization rate to determine the post-capitalization amount. Provision for the impairment of assets should be calculated and confirmed on the basis of single item assets and if difficult to estimate the recoverable amount of single item asset, determine the recoverable amount of the asset group to which the asset is belonged. Asset group is the minimum asset portfolio that can independently generate cash inflow.

(5) *Specific standard for classification of internal R&D project's research and development stage*

(6) *Verification of internal R&D project expenditure*

The research expenditures for its internal research and development projects shall be recorded into the profit or loss for the current period.

The development expenditures for its internal research and development projects may be confirmed as intangible assets when they satisfy the following conditions simultaneously, and the research expenditures fail to satisfy the following conditions shall be recorded into the profit or loss for the current period:

- ① It is feasible technically to finish intangible assets for use or sale;
- ② It is intended to finish and use or sell the intangible assets;
- ③ The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;
- ④ It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and
- ⑤ The development expenditures of the intangible assets can be reliably calculated.

21. Long-term unamortized expenses

Long-term unamortized expenses are various expenditures incurred but that should be allocated over the current and future periods of more than one year. Long-term unamortized expenses are evenly amortized over the respective beneficial period.

22. Asset transfer with buy-back conditions

23. Expected liability

(1) Recognition standard for expected liability

The Group should recognize the related obligation of a contingency as an expected liability when the following conditions are satisfied:

- (1) That obligation is a present obligation of the enterprise;
- (2) It is likely to cause any economic benefit to flow out of the enterprise due to performance of the obligation; and
- (3) The amount of the obligation can be calculated reliably.

(2) Accounting method for expected liability

The Group should, on the balance sheet date, take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the contingencies, and initially record in accordance with the best estimate of the necessary expenses for the performance of the current obligation.

When all or some of the expenses necessary for the liquidation of an estimated debts of an enterprise is expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained.

24. Share-based payment and equity instrument

(1) Type of share-based payment

The share-based payments shall be classified into equity-settled share-based payments and cash-settled share-based payments.

(2) Confirmation method for fair value of equity instrument

The equity-settled share-based payment in return for employee services shall be recorded at the fair value of the equity instruments granted to the employees. As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses with straight-line method, and the capital reserve should be increased accordingly.

A cash-settled share-based payment shall be recorded in accordance with the fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by the Group. As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Group shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. As to cash-settled share-based payment in return for employee services, if the right cannot be exercised until the vesting period comes to an end or until the prescribed performance conditions are met, then on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the liability shall be adjusted accordingly.

(3) Confirmation basis for best estimate of vested equity instruments

(4) Accounting treatment relating to the implementation, revision and termination of share-based payment plan

25. Buy-back of the company's shares

26. Revenue

(1) Specific criterion for confirmation time of revenue from the sale of goods

Revenue from the sale of goods is recognized only when all of the following conditions are satisfied: (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to

the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be calculated reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be calculated reliably. The revenue relating to the software products developed by the company and other software and hardware commodities is recognized according to the recognition principle for revenue from the sale of goods.

(2) Recognition basis for revenue from abalienating of right to use assets

When the economic benefits associated with transaction will flow to the company and the revenue amount can be calculated reliably, the revenue from abalienating of right to use assets can be recognized respectively as follows:

- ① The amount of interest revenue should be calculated and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate;
- ② The amount of royalty revenue should be calculated and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

(3) Basis for recognition of revenue arising from the rendering of services

Where the outcome of a transaction involving the rendering of services can be estimated reliably, at the balance sheet date, revenue associated with the transaction is recognised using the percentage of completion method. The stage of completion of a transaction involving the rendering of services is determined according to the proportion of services performed to date to the total services to be performed.

The outcome of a transaction involving the rendering of services can be estimated reliably when all of the following conditions are satisfied: (1) the amount of revenue can be calculated reliably; (2) it is probable that the associated economic benefits will flow to the Group; (3) the stage of completion of the transaction can be accounted reliably; and (4) the costs incurred and to be incurred for the transaction can be calculated reliably.

Where the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognised to the extent of costs incurred that are expected to be recoverable and the service costs incurred are recognised as expenses for the current period; where the costs incurred are not expected to be recoverable, no service revenue is recognised.

When the Group has entered into a contract or an agreement comprising both sales of goods and rendering of services, if the sale of goods component and the services rendering component can be separately identified and accounted, the sale of goods component and the services rendering component are accounted for separately. If the sale of goods component and the services rendering component cannot be separately identified, or cannot be separately recorded despite being separately identifiable, the contract as a whole is accounted for as a sale of goods.

The revenue from IT product VAT service and IT consulting service is considered as the revenue arising from the rendering of services.

(4) Recognition basis and method for the schedule of contracted project while recognize contract revenue from rendering of service and construction contract costs with the percentage-of-completion method

If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized in light of the percentage-of-completion method. The schedule of a contracted project may be ascertained on the basis of proportion of accumulative actual contract costs incurred against the expected total contract costs.

The outcome of a construction contract can be estimated in a reliable way means: (1) the total contract revenue can be accounted in a reliable way; (2) the economic benefits pertinent to the contract will flow into the enterprise; (3) the actual contract costs incurred can be clearly distinguished and can be accounted in a reliable way; and (4) both the schedule of the contracted project and the contract costs to complete the contract can be accounted in a reliable way.

If the outcome of a construction contract can not be estimated in a reliable way, but the contract costs can be recovered, the contract revenue shall be acknowledged in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period they are incurred; If the contract costs cannot be recovered, these costs shall be acknowledged as contract expenses immediately when incurred and no contract revenue shall be acknowledged. If the uncertainties, which cause that the outcome of a construction contract can not be accounted in a reliable way, have passed out of existence, the revenues and expenses pertinent to the construction contract shall be acknowledged in light of percentage-of-completion method.

If the total expected contract costs exceed the total expected contract revenue, the expected loss shall be recognized as the current expenses.

The following revenues of the company shall apply to the recognition of revenue on the basis of construction contract

Income of industry solution and services

Industry solution and services refer to the series of services based on development of industry application software, covering IT infrastructure construction, system integration and system operation & maintenance, provided to customer in the field of government, public utility, finance, energy, etc. generally including the provision of computer software and hardware product and services relating to equipment installation, system integration and operation & maintenance.

For revenue recognition, if the part of sale of goods and rendering of service can be divided and separately accounted, the revenue should be recognized respectively on the basis of the revenue from sale of goods and rendering of service. If the part of sale of goods and rendering of service can not be divided due to business characteristics, the revenue shall be recognized respectively as follows:

A. When the provision of services is started and completed within the same accounting year, revenue should be recognised at the time of completion of the services based on project completion acceptance certificate, the amount recognized shall be the amount specified by completion of settlement or total contract value;

B. When the provision of services is started and completed in different accounting years and the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, the Group should recognise the service revenue by the use of the percentage of completion method.

Recognition method for the percentage of completion method: the percentage of cumulative actual cost occurred of total contract budget cost.

A. Verification of costs occurred: the cost of industry solution and service mainly includes the cost of material equipment and labor cost. For the material equipment that account for the major part of cost, the Group would purchase them according to actual project progress, and recognize cost in the light of customer or supervisor's acceptance check.

B. Preparation of total budget cost: the Group prepares overall project budget, mainly including the equipment procurement cost, labor cost, travel expense, miscellaneous expenses, etc. The material equipment cost may be confirmed through market enquiry and negotiation at the time of budget preparation, and labor cost may be confirmed in the light of personnel and time invested in the project.

Customized development service

Customized development service mainly refers to transfer of ownership or co-owned ownership at the time of sale, in accordance with a certain customer's special requirement, by signing technical development contract with the customer.

When the overall revenue from labor service contract, the degree of performing service can be reliably accounted, the economic benefits associated with the transaction will flow to the enterprise, and the cost occurred and the cost to be incurred associated with the service performed can be reliably accounted, the revenue from rendering of service should be recognized in the light of percentage of completion method (project progress finished).

If the Group can not, on the date of the balance sheet, provide customized services meeting above standard, it shall be conducted in accordance with the following circumstances, respectively:

If the cost of labor services incurred is expected to be compensated, the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred, and the cost of labor services shall be carried forward at the same amount. If the cost of labor services incurred is not expected to compensate, the revenue shall be recognized according to the labor service amount to be compensated, and the cost shall be carried over with the cost incurred. The difference of recognized revenue amount

less than labor service cost incurred is recognized as loss; if the labor service cost incurred is expected not be compensated, no revenue should be recognized, but the cost incurred shall be recognized as the expenses in the current period.

The recognition principle and method for customized development service shall also apply to the recognition of revenue from rendering of technical services.

27. Governmental subsidy

(1) Type

Governmental subsidy is classified into the governmental subsidy related to assets and the one related to revenue.

(2) Accounting policy

Governmental subsidy shall be recognized when the Group satisfies the conditions attached and is able to receive the governmental subsidy.

If a government subsidy is in the form of a transfer of a monetary asset, the item is recorded at the amount received or receivable. If a government subsidy is in the form of a transfer of a non-monetary asset, the item is recorded at fair value. If fair value is not reliably determinable, the item is recorded at a nominal amount. A government subsidy in nominal amount is recognised immediately in profit or loss for the current period.

A government subsidy related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For a government subsidy related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised; if the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period.

For the repayment of a government subsidy already recognised, if there is any related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognised in profit or loss for the current period; if there is no related deferred income, the repayment is recognised immediately in profit or loss for the current period.

28. Deferred income tax assets and deferred tax liabilities

(1) Recognition basis for deferred income tax asset

Deferred tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognises the corresponding deferred tax asset for deductible temporary differences associated with investments in subsidiaries, associates

and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: (1) it is not probable that the temporary difference will reverse in the foreseeable future; and (2) it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised. The Group recognises a deferred tax asset for the carryforward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

(2) Recognition basis for deferred income tax liability

Deferred tax liabilities are not recognised for taxable temporary differences related to (1) the initial recognition of goodwill; and (2) the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, the Group does not recognise the corresponding deferred tax liability. Except for the temporary differences above, the Group recognises deferred tax liabilities for all other temporary differences.

29. Operating lease and finance lease

(1) Accounting for operating lease

(1) Recording of operating leases by the Group as lessee

Lease payments under an operating lease is recognised on a straight-line basis over the lease term. Initial direct costs are charged to profit or loss for the current period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

(2) Recording of operating leases by the Group as lessor

Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. Significant initial direct cost are capitalised when incurred and charged to profit or loss for the responding period according to the same basis for rental income recognition. Other insignificant initial direct costs are charged to profit or loss for the period in which they are incurred. Contingent rents are credited to profit or loss in the period in which they actually arise.

(2) Accounting for finance lease

(1) Recording of finance leases by the Group as lessor

On the lease beginning date, the Group shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease

payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The balance after deduction of unrecognized finance fees from minimum lease payment is listed as long-term liability and the long-term liability due within one year.

The Group shall calculate and recognize unrecognized financing fees as the financing fees at the current period by adopting the effective interest rate method, or lease (if any) as current profits and losses at the time of actual accrual.

(2) Accounting Treatments of Group as Lessor in Finance Leases

On the beginning date of the lease term, the Group shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income. The balance after deduction of unrecognized financing income from lease financing receivables is listed as long-term liability and the long-term liability due within one year.

The Group shall calculate and recognize unrecognized financing income as the financing income at the current period by adopting the effective interest rate method, or lease (if any) as current profits and losses at the time of actual accrual.

(3) Accounting for leaseback

30. Assets held for sale

(1) Recognition standard for assets held for sale

(2) Accounting treatment method for assets held for sale

31. Asset securitization business

32. Hedge accounting

33. Major accounting policy and accounting estimate change

If major accounting policy and accounting estimate during the report period is changed:

Yes No

None

(1) Accounting policy change

If major accounting policy during the report period is changed:

Yes No

(2) Accounting estimate changed

If accounting estimate during the report period is changed:

Yes No

34. Correction of accounting error in early period

If any accounting error in early period is found in the report period:

Yes No

None

(1) Retrospective restatement

If any accounting error with retrospective restatement in early period is found in the report period:

Yes No

(2) Prospective application

If any accounting error with prospective application in early period is found in the report period:

Yes No

35. Other major accounting policies, accounting estimate and financial statement preparation method**V. TAX****1. Major tax types and tax rate**

| Tax type | Taxation basis | Tax rate |
|--|---|-----------------|
| VAT | Output tax of assessable income should be calculated on the basis of 17% and 6% and based on the difference after deduction of input VAT that is deductible in the current period, calculate and pay VAT. | 17%; 6% |
| Business tax | Business tax shall be 3% of the revenue from engineering contract | 3% |
| Urban maintenance and construction tax | 7% of actually paid turnover tax | 7% |
| Corporate income tax | 10%, 15% and 25% of taxable income | 10%; 15%; 25% |

Income tax rate applicable for each subsidiary and factories:

10% for the company and subsidiary Beijing Smartdot Technologies Co., Ltd.; 15% for Beijing Taiji Information System Technology Co., Ltd. and 25% for other subsidiaries.

2. Tax preference and approval documents

(1) Deduction and exemption from income tax

- ① In accordance with Notification on Several Policies for Encouraging the Development of Software Industry and Integrated Circuit Industry Issued by the State Council (GF [2000] No. 18) and Notification on Policies for Corporate Income Tax to Further Encourage the Development of Software Industry and Integrate Circuit Industry Issued by Ministry of Finance and SAT (CS [2012] No. 27), the Company was recognized as a high-tech enterprise by Beijing Municipal Science & Technology Commission, Beijing Bureau of Finance, Beijing State Administration of Taxation and Local Taxation Bureau, certificate No.: 201111000964 in October, 2011, with effective period of 3 years, and in December, 2013, it was recognized as a key software manufacturing enterprise in the State planning in 2013-2014 jointly approved by NDRC, MIIT, Ministry of Finance, Commerce Department and SAT, certificate No.: R-2013-026, provided with preferential tax policy of 10% of enterprise income tax rate. Its subsidiary, Beijing Smartdot Science and Technology Ltd. enjoys the same tax rate, it was recognized as a high-tech enterprise in October 2011, certificate No.: GF201111000978, with effective period of 3 years; and in December 2013, it was recognized as a key software manufacturing enterprise in the State planning in 2013-2014, certificate No.: R-2013-064.
- ② Beijing Taiji Information System Technology Co., Ltd., a subsidiary founded on December 11, 2011, is a high-tech enterprise approved by Beijing Municipal Science & Technology Commission, Beijing Bureau of Finance, Beijing State Administration of Taxation and Local Taxation Bureau, certificate No.: GF201111001778, with effective period of 3 years, and provided with preferential tax policy of 15% of enterprise income tax rate.
- ③ Beijing Smartdot Donghe Information Technology Co., Ltd., founded in 2010, a software enterprise recognized by Beijing Economic and information commission, certificate No. J R-2010-0615. In accordance with Notice of Ministry of Finance and SAT on Several Preferential Policies Related to Enterprise Income Tax (CS [2008]1), new software production enterprise in China, after affirmation, shall enjoy the former two-year income tax exemptions and later six- year halve since profit-making year, the enterprise income tax is reduced by half in 2013, with applicable tax rate of 12.5%.
- ④ Nanjing Smartdot Donghe Information Technology Co., Ltd., founded in 2010, a software enterprise recognized by Jiangsu Economic and information commission, certificate No. S R-2012-A0140, In accordance with Notice of Ministry of Finance and SAT on Several Preferential Policies Related to Enterprise Income Tax (CS [2008]1) and SCS [2008 No.16, new software production enterprise in China, after affirmation,

shall enjoy the former two-year income tax exemptions and later six-year halve since profit-making year. Nanjing Smartdot has enjoyed the preferential policy since 2012 and been exempted income tax in 2013.

In accordance with the Administrative Measures for the Pre-tax Deduction of Enterprise Research and Development Expenses (Trial) (GSF [2008] No. 116), technological development expense arising from the development of new products, technologies and processes shall be deducted before tax, and the company can additionally calculate and deduct the following expenditures in the calculation of the taxable income amount on the basis of 50% of the actual amount incurred. In 2013 the company and subsidiary Beijing Smartdot Technologies Co., Ltd. enjoyed the reduction and exemption of income tax.

(2) Refund of VAT

In accordance with Notification on Policies for VAT of Software Product issued by Ministry of Finance and SAT (CS [2011] No. 100), for the software self-developed by the Company, VAT is levied with the statutory tax rate of 17%, drawback policy of VAT is applied for the actual tax burden over 3%.

In accordance with Notification on Collecting VAT for Transportation Industry and Part Modern Service Industry in 8 Provinces and Cities Including Beijing jointly issued by Ministry of Finance and SAT (CS [2012] No. 71), taxpayer in the pilot is exempted from VAT for providing technical transformation, technological development and relevant technology consulting and technical services. Since September 1, 2012, the Company, Smartdot, Taiji Information are exempted from VAT for providing technological development and relevant technology consulting and technical services. The company and its subsidiary Beijing Taiji Information System Co., Ltd. and Beijing Smartdot Technologies Co., Ltd. has enjoyed the preferential policy.

In accordance with the Approval of VAT Exemption for Military Products Manufactured by Military Industry Enterprises (HGS [2008]05029), Taiji Information System Co., Ltd., a subsidiary, conforms to the conditions for military industry enterprise and the exemption from VAT.

3. Other description

None

VI. ENTERPRISE MERGER AND COMBINED FINANCIAL STATEMENT

1. Information regarding subsidiary

(1) Subsidiaries acquired through establishment or investment

Unit: Yuan

| Full name of subsidiary | Type of subsidiary | Registration place | Business nature | Registered capital | Business scope | Actual investment amount in the end of period | Amount of other items that actually constitute net investment in subsidiary | Shareholding ratio (%) | Proportion of votes (%) | Combined statement or not | Minor shareholder's equity | Amount of minor shareholder's equity to offset minor shareholders' loss and profit | The amount of current year loss contributed to minority shareholders in excess of the shareholders' equity contributed to minority shareholders at the beginning of the year, that have been offset in the shareholders' equity of the parent company |
|---|--------------------|--------------------|--------------------|--------------------|--|---|---|------------------------|-------------------------|---------------------------|----------------------------|--|---|
| | | | | | | | | | | | | | |
| Beijing Taiji Network Technology Co., Ltd. | Fully-owned | Beijing | Information system | 5.00 million | Not engaged in the items prohibited by the law and regulations; not engaged in the item that should get approval but not | 5.00 million | | 100% | 100% | Yes | | | |
| Beijing Taiji Information System Technology Co., Ltd. | Fully-owned | Beijing | Information system | 50.00 million | Development, transfer of computer software, network technology service, etc. | 50.00 million | | 100% | 100% | Yes | | | |
| Shenzhen Taiji Building Technology Co., Ltd. | Holding | Shenzhen | Information system | 500,000 | Electronic products and computer software and hardware | 400,000 | | 80% | 80% | Yes | | | |
| Taiji Computer (Xi'an) Co., Ltd. | Fully-owned | Xi'an | Information system | 10.00 million | Development, transfer of computer software, network technology service, etc. | 10.00 million | | 100% | 100% | Yes | | | |
| Hainan Taiji Information Technology Co., Ltd. | Fully-owned | Hainan | Information system | 10.00 million | Development, transfer of computer software, network technology service, etc. | 10.00 million | | 100% | 100% | Yes | | | |
| Beijing Taiji Cloud Computer Technology Development Co., Ltd. | Fully-owned | Beijing | Information system | 10.00 million | Property management, technical promotion and computer system service | 10.00 million | | 100% | 100% | Yes | | | |

Other description for subsidiaries acquired through establishment or investment.

(2) Subsidiaries acquired through merger of enterprises under the same control

Unit: Yuan

| Full name of subsidiary | Type of subsidiary | Registration place | Business nature | Registered capital | Business scope | Actual investment amount in the end of period | Amount of other items that actually constitute net investment in subsidiary | Shareholding ratio (%) | Proportion of votes (%) | Combined statement or not | Minor shareholder's equity | Amount of minor shareholder's equity to offset minor shareholders' loss and profit | The amount of current year loss contributed to minority shareholders in excess of the shareholders' equity contributed to minority shareholders at the beginning of the year, that have been offset in the shareholders' equity of the parent company |
|-------------------------|--------------------|--------------------|-----------------|--------------------|----------------|---|---|------------------------|-------------------------|---------------------------|----------------------------|--|---|
|-------------------------|--------------------|--------------------|-----------------|--------------------|----------------|---|---|------------------------|-------------------------|---------------------------|----------------------------|--|---|

Other description for subsidiaries acquired through merger of enterprises under the same control.

None

(3) Subsidiaries acquired through merger of enterprises not under the same control

Unit: Yuan

| Full name of subsidiary | Type of subsidiary | Registration place | Business nature | Registered capital | Business scope | Actual investment amount in the end of period | Amount of other items that actually constitute net investment in subsidiary | Shareholding ratio (%) | Proportion of votes (%) | Combined statement or not | Minor shareholder's equity | The amount of current year loss contributed to minority shareholders in excess of the shareholders' equity contributed to minority shareholders at the beginning of the year, that have been offset in the shareholders' equity of the parent company |
|---------------------------------------|--------------------|--------------------|-----------------|--------------------|--|---|---|------------------------|-------------------------|---------------------------|----------------------------|---|
| | | | | | | | | | | | | Amount of minor shareholder's equity to offset minor shareholders' loss and profit |
| Beijing Smartdot Technology Co., Ltd. | Holding | Beijing | Limited company | 51 million | Development, transfer of computer software, network technology service, etc. | 490.49 million | | 91% | 91% | Yes | 8.3127 million | |

Other description for subsidiaries acquired through merger of enterprises not under the same control.

None

2. Special purpose entity or the business entity achieving control power through entrusted operation or leasing

Unit: Yuan

| Name | Major business contact with the company | Major assets and liability balance in the end of period recognized in combined statement |
|------|---|--|
|------|---|--|

Other description for Special purpose entity or the business entity achieving control power through entrusted operation or leasing

None

3. Description of change within combination scope

Description of change within scope of combined statement

Applicable Not applicable

4. Entity newly included in the combination scope within report period and the entity no longer included in the combination scope within report period

Subsidiary, special purpose object, the business entity achieving control power through entrusted operation or leasing that is newly included in the combination scope within report period

Unit: Yuan

| Name | Net asset in the end of period | Net profit in the period |
|---------------------------------------|-----------------------------------|-----------------------------|
| Beijing Smartdot Technology Co., Ltd. | 169,300,616.52 | 33,498,748.12 |

Subsidiary, special purpose object, the business entity achieving control power through entrusted operation or leasing that is no longer included in the combination scope within report period.

Unit: Yuan

| Name | Net asset at disposal date | Net asset at disposal date from beginning of the year |
|-------------|-----------------------------------|--|
|-------------|-----------------------------------|--|

Other description for entity newly included and those no longer included in the combination scope within report period

Beijing Smartdot Technologies Co., Ltd. is a subsidiary acquired in this year through merger of enterprises not under the same control, the net profit on its combined statement is the net profit from its purchase date to the end of this year.

5. Merger of enterprises under the same control in report period

Unit: Yuan

| Combined party | Criteria for merger of enterprises under the same control | Actual controller under same control | Revenue from beginning of this period to merger date | Net profit from beginning of this period to merger date | Cash flow from operations from beginning of this period to merger date |
|-----------------------|--|---|---|--|---|
|-----------------------|--|---|---|--|---|

Other descriptions for enterprise merger under same control

None

6. Enterprise merger not under the same control in report period*Unit: Yuan*

| Combined party | Amount of goodwill | Goodwill calculation method |
|---|---------------------------|---|
| Beijing Smartdot Technologies Co., Ltd. | 374,336,612.48 | The difference of combined cost minus fair value of recognizable net asset of acquire on purchase date acquired during combination is recognized as goodwill, specifically in the attached table. |

Other descriptions for enterprise merger not under the same control

(1) Beijing Smartdot Technologies Co., Ltd.

The Company acquired 91% of shares of Beijing Smartdot Technologies Co., Ltd. from 13 natural persons, like Jiang Xiaodan, etc., and 4 companies like Weixinfeng, on December 6, 2013, the purchase date, namely the date the Company acquired the control power over Beijing Smartdot Technologies Co., Ltd.

- ① Recognition of combined cost and goodwill (or the amount of the fair value of net identifiable assets in excess of combined cost included in the loss and profit):

| Item | Amount |
|--|------------------------------|
| Combined cost: | |
| Cash paid | 60,382,873.50 |
| Cash to be paid | 13,190,626.50 |
| Fair value of equity securities issued (amount: 26,828,604 shares, ex-right price 15.54 yuan per share) | 416,916,506.16 |
| Total combined cost | <u>490,490,006.16</u> |
| Minus: fair value of identifiable net assets acquired | <u>116,153,393.67</u> |
| Goodwill | <u><u>374,336,612.48</u></u> |

Note: Recognition method for the fair value of identifiable net asset. The fair value of identifiable net asset shall be subject to the result confirmed by Zhonghe Assets Appraisal Co., Ltd. on December 31, 2012 with asset-based approach and continuous calculation. Transaction price is confirmed in the light of evaluation result confirmed with income approach on above evaluation date.

The Company takes the equity securities issued and cash paid as the consideration of enterprise merger, 26,828,604 shares, 1 yuan each share. Issue price shall be confirmed in the light of average stock dealing price in 20 transaction days before pricing benchmark date after ex-dividend. Parties participating in merger accounts 9.78% of voting shares.

② Cash flow related to Beijing Smartdot Technologies Co., Ltd. in connection with assets, liability and purchase on the purchase date is shown below:

| Item | Fair value on purchase date | Book value on purchase date | Book value in the end of last year |
|---|-----------------------------|-----------------------------|------------------------------------|
| Cash and cash equivalent | 32,468,004.79 | 32,468,004.79 | 56,843,918.00 |
| Receivables | 138,408,728.84 | 138,408,728.84 | 91,058,647.56 |
| Inventory | 7,395,062.59 | 7,395,062.59 | 5,639,931.95 |
| Other current assets | 25,985,724.32 | 25,985,724.32 | 13,636,396.93 |
| Long-term equity investment | | | |
| Fixed asset | 3,543,018.74 | 3,543,018.74 | 3,366,170.42 |
| Intangible asset | 3,952,853.92 | 420,461.43 | 564,895.51 |
| Other non-current assets | 7,259,803.83 | 7,537,803.83 | 13,207,655.86 |
| Less: borrowings | 25,000,000.00 | 25,000,000.00 | 15,000,000.00 |
| Payables | 14,809,516.60 | 14,809,516.60 | 16,981,923.14 |
| Employee pay payable | 4,295,173.85 | 4,295,173.85 | 7,124,056.99 |
| Deferred income tax liability | 432,537.86 | | |
| Other liabilities | <u>38,674,100.32</u> | <u>41,454,100.32</u> | <u>26,469,383.70</u> |
| Net assets | 135,801,868.40 | 130,200,013.77 | 118,742,252.40 |
| Less: minority stockholder's interest | <u>8,160,776.45</u> | <u>8,160,776.45</u> | <u>9,512,957.21</u> |
| Net assets acquired | <u>127,641,091.95</u> | <u>122,039,237.32</u> | <u>109,229,295.19</u> |
| Consideration paid in cash | 60,382,873.50 | | |
| Less: Cash and cash equivalent acquired of subsidiary purchased | <u>32,468,004.79</u> | | |
| Net cash for acquisition of subsidiary | <u>27,914,868.71</u> | | |

In accordance with Appraisal Report (ZHPBZ [2013] BJV4003) issued by Zhonghe Assets Appraisal Co., Ltd., overall appraisal has been made respectively with asset-based method and income approach, the base date of asset appraisal is December 31, 2012.

Major assumptions:

A. General assumptions

- a. National and local existing laws, regulations, systems and social, political and economic policy that Smartdot Technology has to observe during business operation have no material change;
- b. Smartdot Technology maintains continuous operation and consistent with existing business operation mode;
- c. Existing national tax benchmark and tax rate, preferential tax policy, bank credit, interest rates and other policy fees are subject to no material change;
- d. Not consider the influence of inflation on operating price and cost;
- e. The finance and industry prospect material provided by relevant unit is assumed to be true;
- f. No material adverse impact caused by other force majeure and unpredictable factors.

B. Pertinent assumption

- a. The future revenue, cost and expense prediction data provided by Smartdot Technology is true and reliable and can be realized as scheduled;
- b. It is assumed that Smartdot Technology maintains relatively stable technical team and senior executives, free from brain drain relating to core professionals;
- c. Smartdot Technology 's business entity and operator in future is responsible, and management level can steadily promote development plan and maintain good development momentum;
- d. Smartdot Technology's future operators observe relevant national laws and regulations, free from material violation that would affect development and benefit realization;
- e. The fiscal financial year provided by Smartdot Technology has the accounting policy materially consistent with the accounting policy and accounting method (or after adjustment);
- f. It is assumed that Smartdot Technology can continuously control resources and maintain core competitiveness, including technical license, marketing network, etc.

- g. Beijing Smartdot Technologies Co., Ltd. would acquire high-tech enterprise accreditation in future years. The revenue, net profit and cash flow from purchase date to the end of this year is shown below:

| Item | Amount |
|-------------------------------------|---------------|
| Operation revenue | 79,293,301.79 |
| Net profit | 33,498,748.12 |
| Cash flow from operating activities | 59,350,069.27 |
| Net cash flow | 82,376,842.39 |

Any circumstance in the report period that enterprise merger through multiple transaction and acquisition of control power

Applicable Not applicable

7. Reduction of subsidiary due to sale of stock rights without control power in report period

| Name of subsidiary | Date of sale | Loss and profit recognition method |
|--------------------|--------------|------------------------------------|
|--------------------|--------------|------------------------------------|

Other descriptions for subsidiary reduction due to sale of stock rights without control power

None

Any investment in subsidiary through multiple transactions and disposal and loss of control power in report period

Applicable Not applicable

8. Counter purchase in report period

| Borrower | Basis for counter purchase | Recognition method for combined cost | Calculation method for goodwill recognized during combination or the loss or profit included in the current period |
|----------|----------------------------|--------------------------------------|--|
|----------|----------------------------|--------------------------------------|--|

Other descriptions for counter purchase

None

9. Consolidation by merger in the report period*Unit: Yuan*

| Type of consolidation by merger | Major assets consolidated | | Major liabilities consolidated | |
|--|---------------------------|--------|--------------------------------|--------|
| | Item | Amount | Item | Amount |
| Consolidation by merger under same control | Item | Amount | Item | Amount |
| Consolidation by merger not under same control | Item | Amount | Item | Amount |
| Other descriptions for consolidation by merger | | | | |

None

10. Conversion exchange rate of principal statement items for overseas operation entity

None

VII. NOTES TO PRINCIPAL ITEMS IN COMBINED FINANCIAL STATEMENT**1. Monetary capital***Unit: Yuan*

| Item | Closing balance | | | Opening balance | | |
|----------------------|-------------------------|-----------------|------------------|-------------------------|-----------------|----------------|
| | Foreign currency amount | Conversion rate | RMB amount | Foreign currency amount | Conversion rate | RMB amount |
| Cash | — | — | 643,024.34 | — | — | 2,360,196.48 |
| RMB | — | — | 643,024.34 | — | — | 2,360,196.48 |
| Deposit in bank | — | — | 1,178,804,157.55 | — | — | 848,137,961.22 |
| RMB | — | — | 1,178,804,089.21 | — | — | 848,137,961.22 |
| Dollar | 11.05 | 6.10 | 68.34 | — | — | — |
| Other monetary funds | — | — | 42,298,355.45 | — | — | 2,284,366.27 |
| RMB | — | — | 42,298,355.45 | — | — | 2,284,366.27 |
| Total | — | — | 1,221,745,537.34 | — | — | 852,782,523.97 |

Separate description should be provided in case of any limitation on use of funds stored overseas, with potential recovery risk imposed by mortgage, pledge or freezing.

- Other monetary funds are L/G deposit, bank draft deposit, etc.
- The Group utilized in the end of year limited monetary funds 167,445,620.10 yuan, of which the fixed-term (more than three months) deposit is 164,767,708.28 and the L/G deposit more than three months is 2,677,911.82 yuan.

2. Trading financial assets*(1) Trading financial assets**Unit: Yuan*

| Item | Fair value at the end of period | Fair value at the beginning of period |
|-------------|--|--|
|-------------|--|--|

*(2) Trading financial assets with limitation on realization**Unit: Yuan*

| Item | Other material limit on sale or realization | Amount in the end of period |
|-------------|--|--|
|-------------|--|--|

*(3) Description of arbitrage tool and related arbitrage transaction***3. Notes receivable***(1) Classification of note receivable**Unit: Yuan*

| Category | Amount in the end of period | Amount in the beginning of period |
|---------------------|--|--|
| Banker's acceptance | 46,246,892.07 | 94,358,559.00 |
| Trade acceptance | <u>5,713,000.00</u> | <u>—</u> |
| Total | <u><u>51,959,892.07</u></u> | <u><u>94,358,559.00</u></u> |

*(2) Notes receivable pledged in the end of period**Unit: Yuan*

| Issued by | Issue date | Maturity date | Amount | Remark |
|-----------|------------|---------------|--------|--------|
|-----------|------------|---------------|--------|--------|

*(3) Notes converted into receivables due to of note issuer's performance failure and notes the Company has endorsed to other party in the end of period but not yet matured**Notes converted into receivables due to of note issuer's performance failure**Unit: Yuan*

| Issued by | Issue date | Maturity date | Amount | Remark |
|-----------|------------|---------------|--------|--------|
|-----------|------------|---------------|--------|--------|

Description:

Notes the Company has endorsed to other party in the end of period but not yet matured

Unit: Yuan

| Issued by | Issue date | Maturity date | Amount | Remark |
|--|------------------|-------------------|----------------------|--|
| Nanjing Nari Group Co., Ltd. | October 29, 2013 | January 29, 2014 | 9,839,334.00 | Endorsed to Nanjing Pantian Technology Co., Ltd. |
| Beijing Guodiantong Network Technology Co., Ltd. | August 26, 2013 | February 26, 2014 | 5,673,899.59 | Endorsed to Jiangsu Jinzhi Technology Co., Ltd. |
| Beijing Guodiantong Network Technology Co., Ltd. | August 13, 2013 | February 13, 2014 | 4,139,823.52 | Endorsed to Nari (Fujian) Electric Power Survey & Design Co., Ltd. |
| Nanjing Nari Group Co., Ltd. | December 3, 2013 | March 3, 2014 | 4,861,734.40 | Endorsed to Jiangsu Jinzhi Technology Co., Ltd. |
| Nanjing Nari Group Co., Ltd. Information System Integration Branch | November 6, 2013 | May 6, 2014 | 4,072,405.60 | Endorsed to Jiangsu Jinzhi Technology Co., Ltd. |
| Total | — | — | <u>28,587,197.11</u> | — |

Description

Trade acceptance that has been discounted or pledged

None

4. Dividends receivable*Unit: Yuan*

| Item | Opening balance | Increase in current period | Decrease in current period | Closing balance | Reason for no collection | If relevant amount is impaired |
|-------------|-----------------|----------------------------|----------------------------|-----------------|--------------------------|--------------------------------|
| Including: | — | — | — | — | — | — |
| Including: | — | — | — | — | — | — |
| Description | | | | | | |

5. Interest receivable*(1) Interest receivable**Unit: Yuan*

| Item | Opening balance | Increase in current period | Decrease in current period | Closing balance |
|-------------------------------------|---------------------|----------------------------|----------------------------|---------------------|
| Huaxia Bank Dengshikou Branch | <u>7,731,855.76</u> | <u>6,842,919.10</u> | <u>10,956,599.12</u> | <u>3,618,175.74</u> |
| Total | <u>7,731,855.76</u> | <u>6,842,919.10</u> | <u>10,956,599.12</u> | <u>3,618,175.74</u> |

*(2) Overdue interest**Unit: Yuan*

| Loan unit | Overdue time (days) | Amount of overdue interest |
|-----------|---------------------|----------------------------|
|-----------|---------------------|----------------------------|

(3) Interest receivable

Interest receivable refers to the interest receivable from fixed-term deposit of raised funds.

6. Account receivable

(1) Disclosure of receivables by classes

Unit: Yuan

| Category | Closing balance | | | | Opening balance | | | |
|--|-------------------------|--------------|-----------------------|--------------|-----------------------|--------------|----------------------|--------------|
| | Book balance | | Bad-debt provision | | Book balance | | Bad-debt provision | |
| | Amount | Proportion % | Amount | Proportion % | Amount | Proportion % | Amount | Proportion % |
| Receivables that require bad-debt provision based on combination Account age combination | 1,241,937,731.42 | 100% | 101,421,481.80 | 8.17% | 929,959,367.44 | 100% | 67,159,613.86 | 7.22% |
| Combination subtotal | <u>1,241,937,731.42</u> | 100% | <u>101,421,481.80</u> | 8.17% | <u>929,959,367.44</u> | 100% | <u>67,159,613.86</u> | 7.22% |
| Total | <u>1,241,937,731.42</u> | | <u>101,421,481.80</u> | | <u>929,959,367.44</u> | | <u>67,159,613.86</u> | |

Category of receivables

None

Receivables that with material significant single-item amount and withdrawal of bad-debt provision

Applicable Not applicable

Receivables in the combination with allowance of bad-debt provision according to account age analysis method

Applicable Not applicable

Unit: Yuan

| Account age | Closing balance | | | Opening balance | | |
|--------------------|-------------------------|-------------|-----------------------|-----------------------|-------------|----------------------|
| | Book balance | | Bad-debt provision | Book balance | | Bad-debt provision |
| | Amount | Percent (%) | | Amount | Percent (%) | |
| Within 1 year | | | | | | |
| Including: | | | | | | |
| Within 6 months | 663,254,856.76 | 53.4% | 3,255,743.61 | 559,976,361.93 | 60.22% | |
| 7 months-1 year | 189,957,490.36 | 15.3% | 4,810,453.14 | 106,001,774.78 | 11.4% | 2,650,044.37 |
| Subtotal in 1 year | 853,212,347.12 | 68.7% | 8,066,196.75 | 665,978,136.71 | 71.62% | 2,650,044.37 |
| 1-2 years | 210,567,165.69 | 16.95% | 11,615,754.00 | 126,970,753.11 | 13.65% | 6,348,537.66 |
| 2-3 years | 76,712,940.61 | 6.18% | 13,046,750.32 | 68,615,871.66 | 7.38% | 10,292,380.74 |
| 3-4 years | 47,056,454.85 | 3.79% | 18,052,205.56 | 28,140,659.52 | 3.02% | 9,849,230.83 |
| 4-5 years | 18,741,239.97 | 1.51% | 14,992,991.99 | 11,172,630.88 | 1.2% | 8,938,104.70 |
| Above 5 years | 35,647,583.18 | 2.87% | 35,647,583.18 | 29,081,315.56 | 3.13% | 29,081,315.56 |
| Total | <u>1,241,937,731.42</u> | — | <u>101,421,481.80</u> | <u>929,959,367.44</u> | — | <u>67,159,613.86</u> |

Receivables in the combination with withdrawal of bad-debt provision in the light of percentage of balance method

Applicable Not applicable

Receivables in the combination with withdrawal of bad-debt provision in the light of others method

Applicable Not applicable

Receivables with not significant single-item amount but withdrawal of bad-debt provision in single item

Applicable Not applicable

(2) *Receivables reversed or collected in the report period*

Unit: Yuan

| Contents of receivables | Reason for reverse or collection | Basis for recognition of original bad-debt provision | Cumulative | Amount reversed or collected |
|-------------------------|----------------------------------|--|---|------------------------------|
| | | | amount of bad-debt provision before reversion or collection | |
| | | | | |

Withdrawal of bad-debt provision for receivables in the end of period with significant single-item amount or not significant amount but subject to separate impairment test

Unit: Yuan

| Receivables | Book balance | Amount of bad debt | Proportion withdrew (%) | Reason |
|-------------|--------------|--------------------|-------------------------|--------|
|-------------|--------------|--------------------|-------------------------|--------|

Receivables with not significant single-item amount but with high risk after combination in the light of credit risk characteristics

None

(3) Receivables that had been written off in the report period

Unit: Yuan

| Unit name | Nature of receivables | Write-off time | Amount written off | Reason | If related to the correlated transaction |
|-----------|-----------------------|----------------|--------------------|--------|--|
|-----------|-----------------------|----------------|--------------------|--------|--|

Description of receivables write-off

None

(4) Shareholders that hold more than 5% (including 5%) of voting shares relating to receivables in the report period

Unit: Yuan

| Unit name | Closing balance | | Opening balance | |
|----------------------|----------------------|------------------------------|----------------------|------------------------------|
| | Book balance | Amount of bad-debt provision | Book balance | Amount of bad-debt provision |
| 15th Institute, CETC | <u>10,566,022.52</u> | <u>976,129.66</u> | <u>16,874,610.50</u> | <u>661,569.01</u> |
| Total | <u>10,566,022.52</u> | <u>976,129.66</u> | <u>16,874,610.50</u> | <u>661,569.01</u> |

(5) Top 5 units relating to receivables

Unit: Yuan

| Unit name | Relation with the Company | Amount | Years | Percentage of the total receivables (%) |
|--|------------------------------|------------------------------|--------------------|---|
| Anhui Provincial Public Security Department | Non-affiliate | 23,886,251.22 | Within two years | 1.92% |
| Jiangsu Fangyang Group Co., Ltd. | Non-affiliate | 21,655,236.38 | Within two years | 1.74% |
| 18TH INSTITUTE OF CETC | Affiliate under same control | 19,519,293.47 | Within three years | 1.57% |
| Nanjing Nari Group Co., Ltd. Information System Integration Branch | Non-affiliate | 17,748,373.41 | Within one year | 1.43% |
| Postal Savings Bank of China | Non-affiliate | <u>53,713,273.15</u> | Within 6 months | <u>4.32%</u> |
| Total | — | <u><u>136,522,427.63</u></u> | — | <u><u>10.98%</u></u> |

*(6) Receivables from affiliates**Unit: Yuan*

| Unit name | Relation with the Company | Amount | Percentage of the total receivables (%) |
|---|--|----------------------|--|
| 15th institute of CETC | Controlling shareholder and final controller | 10,566,022.52 | 0.85% |
| Beijing Taiji Xianxing Electronic Science and Technology Corp | Controlling shareholder and final controller | 5,000.00 | 0% |
| CETC China Academy of Electronics and Information Technology | Controlling shareholder and final controller | 275,708.50 | 0.02% |
| 28th institute of CETC | Controlling shareholder and final controller | 19,943,119.41 | 1.61% |
| 34th institute of CETC | Controlling shareholder and final controller | 36,944.18 | 0% |
| Beijing Taiji Huabei Property Management Co., Ltd. | Controlling shareholder and final controller | 849.06 | 0% |
| 22nd institute of CETC | Controlling shareholder and final controller | 72,951.05 | 0.01% |
| 54th institute of CETC | Controlling shareholder and final controller | | |
| 11th institute of CETC | Controlling shareholder and final controller | 422,786.82 | 0.03% |
| 10th institute of CETC | Controlling shareholder and final controller | 345,191.75 | 0.03% |
| 27th institute of CETC | Controlling shareholder and final controller | 413,249.19 | 0.03% |
| Chengdu Westone Information Industry Inc., Ltd. | Controlling shareholder and final controller | 109,409.89 | 0.01% |
| Beijing Huaxing Taiji Information Technology Co., Ltd. | Other affiliates | | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | Other affiliates | 84,000.00 | 0.01% |
| Total | — | 32,275,232.37 | 2.6% |

(7) *Receivables derecognized*

Unit: Yuan

| Items | Amount derecognized | Gains or loss related to derecognition |
|-------|------------------------|--|
|-------|------------------------|--|

(8) *Amount of assets or liabilities formed and securitization with receivables as object*

Unit: Yuan

| Item | Closing balance |
|------|-----------------|
|------|-----------------|

Asset:

Liability:

7. Other receivables(1) *Other receivables disclosed by category*

Unit: Yuan

| Category | Closing balance | | Bad-debt provision | | Opening balance | | Bad-debt provision | |
|--|------------------------|----------------|----------------------|----------------|------------------------|----------------|----------------------|----------------|
| | Book balance Amount | Percent (%) | Amount | Percent (%) | Book balance Amount | Percent (%) | Amount | Percent (%) |
| Other receivables with provision of bad-debt in the light of combination | | | | | | | | |
| Account age combination | 153,685,643.02 | 93.04% | 24,213,376.42 | 15.75% | 113,863,549.16 | 94.77% | 18,685,379.20 | 16.41% |
| Provisional sum combination | 11,502,150.53 | 6.96% | | | 6,282,355.98 | 5.23% | | |
| Combination subtotal | <u>165,187,793.55</u> | 100% | <u>24,213,376.42</u> | 14.66% | <u>120,145,905.14</u> | 100% | <u>18,685,379.20</u> | 15.55% |
| Total | <u>165,187,793.55</u> | — | <u>24,213,376.42</u> | — | <u>120,145,905.14</u> | — | <u>18,685,379.20</u> | |

Description of the category of other receivables

Other receivables in the end of period with significant single-item amount and provision of bad-debt in single item

Applicable Not applicable

Other receivables in the combination with provision of bad-debt through account age analysis method

Applicable Not applicable

Unit: Yuan

| Account age | Closing balance | | | Opening balance | | |
|------------------------|-----------------------|-------------|----------------------|-----------------------|-------------|----------------------|
| | Book balance | | Bad-debt provision | Book balance | | Bad-debt provision |
| | Amount | Percent (%) | | Amount | Percent (%) | |
| Within 1 year | | | | | | |
| Including: | | | | | | |
| Subtotal within 1 year | 91,107,757.80 | 59.28% | 2,304,514.55 | 73,653,928.59 | 64.69% | 1,841,348.23 |
| 1—2 years | 31,657,659.00 | 20.6% | 1,596,603.84 | 14,652,018.69 | 12.87% | 732,600.93 |
| 2—3 years | 6,834,337.73 | 4.45% | 1,098,710.97 | 7,309,056.69 | 6.42% | 1,097,199.63 |
| 3—4 years | 6,740,912.90 | 4.38% | 2,522,029.13 | 3,600,387.20 | 3.16% | 1,260,135.52 |
| 4—5 years | 3,267,288.30 | 2.13% | 2,613,830.64 | 4,470,315.48 | 3.92% | 3,576,252.38 |
| Above 5 years | <u>14,077,687.29</u> | 9.16% | <u>14,077,687.29</u> | <u>10,177,842.51</u> | 8.94% | <u>10,177,842.51</u> |
| Total | <u>153,685,643.02</u> | — | <u>24,213,376.42</u> | <u>113,863,549.16</u> | — | <u>18,685,379.20</u> |

Other receivables in the combination with bad-debt provision through percentage of balance method

Applicable Not applicable

Other receivables in the combination with bad-debt provision through other methods

Applicable Not applicable

Other receivables in the end of period with not significant single-item amount but provision of bad-debt in single item

Applicable Not applicable

(2) Other receivables reversed or collected in report period

Unit: Yuan

| Contents of other receivables | Reason for reverse or collection | Basis for recognition of original bad-debt provision | Cumulative | Amount reversed or collected |
|-------------------------------|----------------------------------|--|---|------------------------------|
| | | | amount of bad-debt provision before reversion or collection | |
| | | | | |

Bad-debt provision for other receivables in the end of period with significant single-item amount or not significant but subject to separate impairment test

Unit: Yuan

| Contents of receivables | Book balance | Bad-debt amount | Provision percentage (%) | Reason |
|-------------------------|--------------|-----------------|--------------------------|--------|
|-------------------------|--------------|-----------------|--------------------------|--------|

Other receivables with not significant single-item amount but with high risk after combination in the light of credit risk characteristics

None

(3) Other receivables that had been written off in the report period

Unit: Yuan

| Unit name | Nature of receivables | Write-off time | Amount written off | Reason | If related to the correlated transaction |
|-----------|-----------------------|----------------|--------------------|--------|--|
|-----------|-----------------------|----------------|--------------------|--------|--|

Description of other receivables write-off

None

(4) Shareholders that hold more than 5% (including 5%) of voting shares relating to other receivables in the report period

Unit: Yuan

| Unit name | Closing balance | | Opening balance | |
|----------------------|--------------------------|------------------------------|-----------------|------------------------------|
| | Book balance | Amount of bad-debt provision | Book balance | Amount of bad-debt provision |
| 15th Institute, CETC | <u>670,000.00</u> | <u>16,750.00</u> | | |
| Total | <u><u>670,000.00</u></u> | <u><u>16,750.00</u></u> | | |

(5) Nature or content of other receivables with significant amount

Unit: Yuan

| Unit name | Amount | Nature or content | Percentage accounting for total other receivables (%) |
|-------------|--------|-------------------|---|
| Description | | | |
| None | | | |

(6) Top 5 units relating to receivables

Unit: Yuan

| Unit name | Relation with the Company | Amount | Years | Percentage accounting for total other receivables (%) |
|--|---------------------------|-----------------------------|----------------|---|
| Nanjing Surveying Instrument Factory | Non-affiliate | 16,420,000.00 | Within 2 years | 9.94% |
| Shanghai Zhongke Jincun Electronic Technology Co., Ltd. | Non-affiliate | 6,091,500.00 | Within 2 years | 3.69% |
| Beijing Information Resource Management Center | Non-affiliate | 7,388,440.00 | Within 2 years | 4.47% |
| China Conic Import & Export Co., Ltd. | Non-affiliate | 4,443,603.75 | Above 5 years | 2.69% |
| Dongcheng Branch, Beijing Municipal Public Security Bureau | Non-affiliate | <u>3,902,597.80</u> | Within 1 year | <u>2.36%</u> |
| Total | — | <u><u>38,246,141.55</u></u> | — | <u><u>23.15%</u></u> |

*(7) Account receivable from other affiliates**Unit: Yuan*

| Unit name | Relation with the Company | Amount | Percentage accounting for total other receivables (%) |
|---|---|---------------------|--|
| 15th Institute, CETC | Controlling shareholder and final controller | 670,000.00 | 0.41% |
| CETC | Controlling shareholder and final controller | | |
| 10th Institute of CETC | Other enterprises controlled by the same controlling shareholder and final controller | 20,000.00 | 0.01% |
| 22nd Institute of CETC, Tianbo Information System Engineering | Other enterprises controlled by the same controlling shareholder and final controller | 150,000.00 | 0.09% |
| Shanghai Taiji Huafang Information System Co., Ltd. | Other affiliates | 1,494,525.30 | 0.90% |
| Total | — | <u>2,334,525.30</u> | <u>1.41%</u> |

*(8) Other receivables derecognized**Unit: Yuan*

| Items | Amount derecognized | Gains or loss related to derecognition |
|--------------|----------------------------|---|
|--------------|----------------------------|---|

(9) Amount of assets or liabilities formed and securitization with receivables as object

Unit: Yuan

Item **Closing balance**

Asset:
Liability:

(10) Governmental subsidy recognized as receivables in report period

Unit: Yuan

| Unit name | Name of governmental subsidy item | Closing balance | Account age in the end of period | Expected collection time | Expected collection amount | Expected collection basis | Reason for expected amount not collected at |
|-----------|-----------------------------------|-----------------|----------------------------------|--------------------------|----------------------------|---------------------------|---|
| | | | | | | | expected time-point (if any) |

8. Advance payment

(1) Advance payment listed by account age

Unit: Yuan

| Account age | Closing balance | | Opening balance | |
|---------------|-----------------------|--------------|-----------------------|--------------|
| | Amount | Percent (%) | Amount | Percent (%) |
| Within 1 year | 110,503,015.05 | 81.05% | 557,889,596.23 | 96.52% |
| 1—2 year(s) | 21,554,282.33 | 15.81% | 18,130,512.60 | 3.14% |
| 2—3 years | 4,186,973.62 | 3.07% | 1,656,880.90 | 0.29% |
| Above 3 years | <u>101,184.50</u> | <u>0.07%</u> | <u>295,534.50</u> | <u>0.05%</u> |
| Total | <u>136,345,455.50</u> | | <u>577,972,524.23</u> | |

Notes to account age of advance payment

For the advance payment with significant amount and account age more than 1 year, it mainly includes the equipment payment 15 million yuan paid to China Railway Electrification Bureau, and unsettlement means non-completion.

*(2) Top 5 units relating to advance payment**Unit: Yuan*

| Unit name | Relation with the Company | Amount | Time | Reason for unsettlement |
|---|---------------------------|----------------------|---------------|-------------------------|
| Xuanhua Steel Group Co., Ltd. | Non-affiliate | 32,594,979.00 | Within 1 year | Project not completed |
| China Railway Electrification Bureau | Non-affiliate | 15,000,000.00 | 1—2 year(s) | Project not completed |
| Beijing Seadata Intelligent Data Technology Co., Ltd. | Non-affiliate | 6,364,800.00 | Within 1 year | Project not completed |
| China Academy of Railway Sciences | Non-affiliate | 6,000,000.00 | Within 1 year | Project not completed |
| Shenzhen Jiuli Trading Ltd. | Non-affiliate | <u>5,768,238.13</u> | Within 1 year | Project not completed |
| Total | — | <u>65,728,017.13</u> | — | — |

Description of major units relating to advance payment

None

*(3) Shareholders that hold more than 5% (including 5%) of voting shares relating to other receivables in the report period**Unit: Yuan*

| Unit name | Closing balance | | Opening balance | |
|-----------|-----------------|------------------------------|-----------------|------------------------------|
| | Book balance | Amount of bad-debt provision | Book balance | Amount of bad-debt provision |

(4) Description of advance payment

None

9. Inventory*(1) Inventory classification**Unit: Yuan*

| Item | Book balance | Closing balance | | Opening balance | | |
|-------------------------------------|-----------------------|------------------------|-----------------------|----------------------|------------------------|----------------------|
| | | Falling price reserves | Book value | Book balance | Falling price reserves | Book value |
| Raw material | 997,888.66 | 997,888.66 | | 997,888.66 | 997,888.66 | |
| Goods in process | 585,141.70 | | 585,141.70 | 461,534.97 | | 461,534.97 |
| Merchandise inventory | 106,083,203.15 | 2,640,421.37 | 103,442,781.78 | 54,845,158.65 | 723,987.29 | 54,121,171.36 |
| Goods shipped in transit | 10,111,066.40 | 1,230,857.23 | 8,880,209.17 | 17,958,367.51 | 1,230,857.23 | 16,727,510.28 |
| Low priced and easily worn articles | | | | 2,485.00 | | 2,485.00 |
| Total | 117,777,299.91 | 4,869,167.26 | 112,908,132.65 | 74,265,434.79 | 2,952,733.18 | 71,312,701.61 |

*(2) Inventory falling price reserves**Unit: Yuan*

| Type of inventory | Book balance in the beginning of period | Provision in this period | Reduction in this period | | Book balance in the end of period |
|--------------------------|---|--------------------------|--------------------------|-----------|-----------------------------------|
| | | | Reversed | Write-off | |
| Raw material | 997,888.66 | | | | 997,888.66 |
| Merchandise inventory | 723,987.29 | 1,916,434.08 | | | 2,640,421.37 |
| Goods shipped in transit | 1,230,857.23 | | | | 1,230,857.23 |
| Total | 2,952,733.18 | 1,916,434.08 | | | 4,869,167.26 |

(3) Description of inventory falling price reserves

| Item | Basis for provision of inventory falling price reserves | Reason for provision of inventory falling price reserves | Percentage of amount reversed in this period accounting for inventory balance in the end of period (%) |
|-----------------------|--|---|---|
| Merchandise inventory | The inventory prepared for 08 Olympic Games caused net realizable value of finished product and related raw material lower than inventor cost due to reduced market price. | | |

Description

Year end balance of inventory contains no the amount of capitalized borrowing cost.

10. Other current assets

Unit: Yuan

| Item | Closing balance | Opening balance |
|--------------------------|--------------------------|------------------------|
| Input tax to be deducted | <u>980,935.72</u> | |
| Total | <u><u>980,935.72</u></u> | |

Other current assets

11. Available-for-sale financial assets*(1) Available-for-sale financial assets**Unit: Yuan*

| Item | Fair value in the end of period | Fair value in the beginning of period |
|------|------------------------------------|--|
|------|------------------------------------|--|

Held-to-maturity investment is reclassified as available-for-sale financial assets. The percentage of the amount accounting for held-to-maturity investment before reclassification.

Available-for-sale financial assets

None

*(2) Long-term debt investment in available-for-sale financial assets**Unit: Yuan*

| Bond item | Bond type | Book value | Initial investment cost | Maturity date | Opening balance | Interest in the period | Accumulative interest receivable or received | Closing balance |
|-----------|-----------|------------|----------------------------|---------------|--------------------|---------------------------|---|--------------------|
|-----------|-----------|------------|----------------------------|---------------|--------------------|---------------------------|---|--------------------|

Description of long-term debt investment in available-for-sale financial assets

None

*(3) Impairment of available-for-sale financial assets**Unit: Yuan*

| Classification of available-for-sale financial assets | Available-for-sale equity tool | Available-for-sale debt tool | Others | Total |
|--|---------------------------------------|-------------------------------------|---------------|--------------|
|--|---------------------------------------|-------------------------------------|---------------|--------------|

*(4) Change of available-for-sale financial assets in report period**Unit: Yuan*

| Classification of available-for-sale financial assets | Available-for-sale equity tool | Available-for-sale debt tool | Others | Total |
|--|---------------------------------------|-------------------------------------|---------------|--------------|
|--|---------------------------------------|-------------------------------------|---------------|--------------|

*(5) Description of slump or continuous falling of fair value of available-for-sale equity tool in the end of period**Unit: Yuan*

| Available-for-sale equity tool (itemized) | Cost | Fair value | Falling percentage of fair value in relative to cost (%) | Continuous falling period | Amount of provision of impairment | Reason for failure to provide provision of impairment base on the difference between cost and fair value in the end of period |
|--|-------------|-------------------|---|----------------------------------|--|--|
|--|-------------|-------------------|---|----------------------------------|--|--|

12. Held-to-maturity investment*(1) Held-to-maturity investment**Unit: Yuan*

| Item | Book balance in the end of period | Book balance in the beginning of period |
|-------------|--|--|
|-------------|--|--|

Description of held-to-maturity investment

(2) *Held-to-maturity investment sold but not matured in the report period*

Unit: Yuan

Item **(%) Percent of the
Amount investment before sale**

Description of Held-to-maturity investment sold but not matured in the report period

13. Long-term receivables

Unit: Yuan

Category **Closing balance** **Opening balance**

14. Investment in joint ventures and associated enterprises

Unit: Yuan

| Name of investee | Share ratio held by the Company (%) | Voting ratio held by the Company in the investee (%) | Total assets in the end of period | Total liability in the end of period | Total net assets in the end of period | Total business revenue in the period | Net profit in the period |
|---|---|---|--------------------------------------|---|---|--|-----------------------------|
| | | | | | | | |
| I. Joint ventures | | | | | | | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | 50% | 50% | 120,040,963.92 | 84,000.00 | 119,956,963.92 | 0.00 | (43,036.08) |
| II. Associated enterprises | | | | | | | |
| Beijing Kingbase Information Technologies Inc. | 30.34% | 30.34% | 198,084,385.31 | 48,700,486.54 | 149,383,598.77 | 71,311,257.40 | 7,217,728.59 |

Significant difference between joint ventures and associated enterprises and the Company in terms of important accounting policy and accounting estimate

None

15. Long-term equity investment*(1) Details of long-term equity investment**Unit: Yuan*

| Investee | Accounting method | Investment cost | Opening balance | Increase and decrease variation | Closing balance | Share ratio held in investee (%) | Voting ratio in investee (%) | Description of inconsistency between investee share ratio and voting ratio | Provision of impairment | Provision of impairment withdrawn in the period | Cash bonus in the period |
|--|-------------------|-----------------------|----------------------|---------------------------------|-----------------------|----------------------------------|------------------------------|--|-------------------------|---|--------------------------|
| 1. Sansia Hi-Tech Information Technology Co., Ltd. | Cost method | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 | 10% | 10% | | | | 97,402.65 |
| 2. Beijing Taiji Vision Co., Ltd. | Cost method | 10,000,000.00 | 10,000,000.00 | | 10,000,000.00 | 20% | 20% | | 5,000,000.00 | | |
| 3. Shanghai Taiji Huafang Information System Co., Ltd. | Cost method | 220,000.00 | 220,000.00 | | 220,000.00 | 18.33% | 18.33% | | 220,000.00 | | |
| 4. CET Xi'an Information Industry Park Development Co., Ltd. | Cost method | 8,000,000.00 | 8,000,000.00 | | 8,000,000.00 | 10% | 10% | | | | |
| 5. Beijing Yuchang Pawning Co., Ltd. | Cost method | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 | 5.56% | 5.56% | | | | |
| 6. Beijing Kingbase Information Technologies Inc. | Equity method | 45,000,000.00 | 48,551,784.25 | 1,847,580.73 | 50,399,364.98 | 30.34% | 30.34% | | | | |
| 7. Beijing Taiji AoTian Technology Co., Ltd. | Equity method | 60,000,000.00 | | 59,978,481.96 | 59,978,481.96 | 50% | 50% | | | | |
| Total | — | <u>125,220,000.00</u> | <u>68,771,784.25</u> | <u>61,826,062.69</u> | <u>130,597,846.94</u> | — | — | — | <u>5,220,000.00</u> | | <u>97,402.65</u> |

*(2) Limitation on the capacity to transfer funds to investee**Unit: Yuan*

Long-term equity investment subject to the limitation on the capacity to transfer funds to investee

Reason for limitation

Accumulative investment loss not recognized in the period

Description of long-term equity investment

Failure of Beijing Taiji Vision Co., Ltd. to complete accounting according to equity method would cause no material impact on the Company.

16. INVESTMENT REAL ESTATE

*(1) Investment real estate accounted at cost**Unit: Yuan*

| Item | Book balance in the beginning of the period | Increase in the period | Reduction in the period | Book balance in the end of period |
|------|---|---------------------------|----------------------------|--|
|------|---|---------------------------|----------------------------|--|

*Unit: Yuan***Current
period***(2) Investment real estate accounted at fair value**Unit: Yuan*

| Item | Fair value in the beginning of period | Purchase | Increase in the period | | Reduction in the period | | Fair value in the end of period |
|------|---|----------|--|--|----------------------------|--|--|
| | | | Reversed from self- use real estate or inventory | Changes in fair value gains and losses | Disposal | Turned into self- use real estate | |

Describe the investment real estate that with accounting mode change in report period and those without proper certificate of title, specify the reason and expected date of completion.

17. Fixed assets

(1) Fixed assets

Unit: Yuan

| Item | Book balance | Increase in the period | | Reduction in | Book balance |
|---|---|---------------------------------------|------------------------------------|-------------------------|--------------------------------|
| | in the beginning of the period | | | the period | in the end of the period |
| I. Total original book value | 44,884,151.07 | 15,919,465.14 | | 4,022,920.85 | 56,780,695.36 |
| Including: house and building | 1,166,242.10 | | | | 1,166,242.10 |
| Machinery equipment | 665,990.00 | | | | 665,990.00 |
| Means of transport | 14,795,146.36 | 4,648,182.11 | | | 19,443,328.47 |
| Electronic and office equipment | 28,087,827.35 | 9,920,467.56 | | 4,022,920.85 | 33,985,374.06 |
| Other equipment | 168,945.26 | 1,350,815.47 | | | 1,519,760.73 |
| | Book balance | Newly increased amount in this period | Provision withdrawn in this period | Reduction in the period | Closing balance in this period |
| II. Total accumulative depreciation | 20,319,408.31 | 3,629,733.62 | 5,115,571.95 | 975,555.92 | 28,089,157.96 |
| Including: house and building | 258,905.28 | 0.00 | 27,989.76 | | 286,895.04 |
| Machinery equipment | 632,690.50 | | | | 632,690.50 |
| Means of transport | 5,846,198.13 | 925,683.78 | 1,485,402.27 | | 8,257,284.18 |
| Electronic and office equipment | 13,466,476.43 | 2,321,936.36 | 3,570,276.84 | 975,555.92 | 18,383,133.71 |
| Other equipment | 115,137.97 | 382,113.48 | 31,903.08 | | 529,154.53 |
| III. Total net book value of fixed assets | Book balance in the beginning of the period | | | — | Closing balance in this period |
| Including: house and building | 24,564,742.76 | | | — | 28,691,537.40 |
| Machinery equipment | 907,336.82 | | | — | 879,347.06 |
| Means of transport | 33,299.50 | | | — | 33,299.50 |
| Electronic and office equipment | 8,948,948.23 | | | — | 11,186,044.29 |
| Other equipment | 14,621,350.92 | | | — | 15,602,240.35 |
| Electronic and office equipment | 53,807.29 | | | — | 990,606.20 |
| Other equipment | | | | — | |
| V. Total book value of fixed assets | 24,564,742.76 | | | — | 28,691,537.40 |
| Including: house and building | 907,336.82 | | | — | 879,347.06 |
| Machinery equipment | 33,299.50 | | | — | 33,299.50 |
| Means of transport | 8,948,948.23 | | | — | 11,186,044.29 |
| Electronic and office equipment | 14,621,350.92 | | | — | 15,602,240.35 |
| Other equipment | 53,807.29 | | | — | 990,606.20 |

Amount of depreciation is 5,115,571.95 yuan in this period, and the original value of construction in process converted into fixed asset is 0.00 yuan.

(2) Temporary idle fixed assets

Unit: Yuan

| Item | Original book value | Accumulative depreciation | Impairment provision | Net book value | Remark |
|-------------|--------------------------------|--------------------------------------|---------------------------------|---------------------------|---------------|
|-------------|--------------------------------|--------------------------------------|---------------------------------|---------------------------|---------------|

(3) Fixed assets rent through financial lease

Unit: Yuan

| Item | Original book value | Accumulative depreciation | Net book value |
|-------------|--------------------------------|--------------------------------------|---------------------------|
|-------------|--------------------------------|--------------------------------------|---------------------------|

(4) Fixed assets leased through financial lease

Unit: Yuan

| Category | Book value in the end of period |
|-----------------|--|
|-----------------|--|

(5) Fixed assets held for sale in the end of period

Unit: Yuan

| Item | Book value | Fair value | Expected disposal cost | Expected disposal time |
|-------------|-------------------|-------------------|---------------------------------------|---------------------------------------|
|-------------|-------------------|-------------------|---------------------------------------|---------------------------------------|

(6) Fixed asset without proper certificate of title

| Item | Reason | Expected completion time for certificate |
|-----------------------------|--------|--|
| Description of fixed assets | | |

18. Construction in process*(1) Construction in process**Unit: Yuan*

| Item | Closing balance | | | Opening balance | | |
|---|---------------------|----------------------|---------------------|---------------------|----------------------|---------------------|
| | Book balance | Impairment provision | Book value | Book balance | Impairment provision | Book value |
| Taiji Cloud Computation Center Base Construction | 5,669,753.24 | | 5,669,753.24 | 2,365,110.28 | | 2,365,110.28 |
| Total | <u>5,669,753.24</u> | | <u>5,669,753.24</u> | <u>2,365,110.28</u> | | <u>2,365,110.28</u> |

*(2) Change of major construction projects in process**Unit: Yuan*

| Project name | Budget amount | Opening balance | Increase in the period | Fixed assets reversed | Other reductions | Percentage of engineering investment accounting for budget (%) | Progress of works | Accumulative amount of interest capitalized | Including: Amount of interest capitalized in the period | Capitalization rate of interest in the period (%) | Fund source | Closing balance |
|---|-----------------------|---------------------|------------------------|-----------------------|------------------|--|-------------------|---|---|---|-------------|---------------------|
| Taiji Cloud Computation Center Base Construction | 864,352,700.00 | 2,365,110.28 | 3,304,642.96 | | | | 0.66% | | | | Self-raised | 5,669,753.24 |
| Total | <u>864,352,700.00</u> | <u>2,365,110.28</u> | <u>3,304,642.96</u> | | | — | — | | | | — | <u>5,669,753.24</u> |

Description of the change of construction project in process

*(3) Impairment provision for construction in process**Unit: Yuan*

| Item | Opening balance | Increase in the period | Reduction in the period | Closing balance | Reason for provision |
|------|-----------------|------------------------|-------------------------|-----------------|----------------------|
|------|-----------------|------------------------|-------------------------|-----------------|----------------------|

(4) Progress of major construction in process

| Project | | Progress of works | Remark |
|--|-------|--------------------------|---|
| Taiji Cloud Computation Center Base Construction | 0.66% | | Progress of works is estimated in the light of engineering investment |

(5) Description of construction in process

None

19. Engineering materials*Unit: Yuan*

| Item | Opening balance | Increase in the period | Reduction in the period | Closing balance |
|-------------|------------------------|-------------------------------|--------------------------------|------------------------|
|-------------|------------------------|-------------------------------|--------------------------------|------------------------|

Description of engineering materials

20. Disposal of fixed assets*Unit: Yuan*

| Item | Book value in the beginning of period | Book value in the end of period | Reason |
|-------------|--|--|---------------|
|-------------|--|--|---------------|

Description of the disposal progress of fixed assets with disposal period more than 1 year

21. Productive biological assets*(1) Recorded at cost**Unit: Yuan*

| Item | Book balance in the beginning of the period | Increase in the period | Reduction in the period | Book balance in the end of the period |
|----------------------------|--|-----------------------------------|------------------------------------|--|
| I. Planting industry | | | | |
| II. Stockbreeding industry | | | | |
| III. Forestry | | | | |
| IV. Aquaculture | | | | |

*(2) Recorded at fair value**Unit: Yuan*

| Item | Book value in the beginning of period | Increase in the period | Reduction in the period | Book value in the end of period |
|----------------------------|--|---------------------------|----------------------------|---------------------------------------|
| I. Planting industry | | | | |
| II. Stockbreeding industry | | | | |
| III. Forestry | | | | |
| IV. Aquaculture | | | | |

Description of productive biological assets

22. Oil and gas assets*Unit: Yuan*

| Item | Book balance in the beginning of the period | Increase in the period | Reduction in the period | Book balance in the end of the period |
|------|---|---------------------------|----------------------------|--|
| | | | | |

Description of oil and gas assets

23. Intangible assets

(1) Intangible asset

Unit: Yuan

| Item | Book balance in the beginning of the period | Increase in the period | Reduction in the period | Book balance in the end of the period |
|--|---|---------------------------|----------------------------|---|
| I. Original book value | 18,364,386.68 | 471,199,925.51 | | 489,564,312.19 |
| Land use right | | 431,310,000.00 | | 431,310,000.00 |
| Software use right | 6,108,000.00 | 2,907,517.27 | | 9,015,517.27 |
| Software copyright | 12,256,386.68 | 36,982,408.24 | | 49,238,794.92 |
| II. Total accumulative amortization | 1,652,481.83 | 13,396,774.40 | | 15,049,256.23 |
| Land use right | | 6,469,650.00 | | 6,469,650.00 |
| Software use right | 504,500.99 | 1,160,032.04 | | 1,664,533.03 |
| Software copyright | 1,147,980.84 | 5,767,092.36 | | 6,915,073.20 |
| III. Total net book value of intangible asset | 16,711,904.85 | 457,803,151.11 | | 474,515,055.96 |
| Land use right | | 424,840,350.00 | | 424,840,350.00 |
| Software use right | 5,603,499.01 | 1,747,485.23 | | 7,350,984.24 |
| Software copyright | 11,108,405.84 | 31,215,315.88 | | 42,323,721.72 |
| Land use right | | | | |
| Software use right | | | | |
| Software copyright | | | | |
| Total book value of intangible asset | 16,711,904.85 | 457,803,151.11 | | 474,515,055.96 |
| Land use right | | 424,840,350.00 | | 424,840,350.00 |
| Software use right | 5,603,499.01 | 1,747,485.23 | | 7,350,984.24 |
| Software copyright | 11,108,405.84 | 31,215,315.88 | | 42,323,721.72 |

Amount of amortization is 12,029,616.85 yuan.

*(2) Expenditure of development projects**Unit: Yuan*

| Item | Opening balance | Increase in the period | Reduction in the period | | Closing balance |
|--|----------------------|------------------------|---|--------------------------------|---------------------|
| | | | Included in loss and profit in current period | Recognized as intangible asset | |
| WZPT Item | 6,189,307.84 | 9,452,802.08 | | 15,642,109.92 | |
| Internet of Things application support platform oriented for smart city | 2,761,723.64 | 2,085,562.43 | | 4,847,286.07 | |
| Cloud service management platform | 981,287.34 | 846,987.96 | | 1,828,275.30 | |
| R&D of emergency public event platform | 771,374.13 | | 771,374.13 | | |
| R&D of electronic E-government application support platform | 3,980,353.73 | 2,608,230.97 | | 6,588,584.70 | |
| R&D of new generation data center comprehensive management system | 1,226,462.90 | | 1,226,462.90 | | |
| R&D of electric production operation monitoring system | 1,882,618.63 | 387,130.10 | | 2,269,748.73 | |
| JDTZ project | 582,226.90 | | 582,226.90 | | |
| Mobile network detecting system | | 1,986,625.51 | | 1,481,024.96 | 505,600.55 |
| New generation of data center visualized operation & maintenance management system | | 1,302,208.67 | | | 1,302,208.67 |
| R&D of safety management platform based on intelligent analysis | | 573,816.35 | | | 573,816.35 |
| GRC control and management system kit | | 4,953,969.79 | | | 4,953,969.79 |
| Total | 18,375,355.11 | 24,197,333.86 | 2,580,063.93 | 32,657,029.68 | 7,335,595.36 |

Development expenditure accounts for 19.47% of total R&D project expenditure.

Intangible assets formed by internal R&D account for 6.88% of the book value of intangible asset in the end of period.

As to the Company's development project, including those with single-item value above 1 million and recorded at evaluation value, the name of evaluation institution and evaluation method should be disclosed.

24. Goodwill

Unit: Yuan

| Name of investee or the items that form into goodwill | Opening balance | Increase in the period | Reduction in the period | Closing balance | Impairment provision in the end of period |
|---|-----------------|------------------------|-------------------------|-----------------|---|
| Beijing Smartdot Technology Co., Ltd. | | 374,336,612.48 | | 374,336,612.48 | |
| Total | | 374,336,612.48 | | 374,336,612.48 | |

Impairment test method and impairment provision withdrawing method for goodwill

Impairment test should be conducted annually for goodwill, regardless of the sign of impairment. For goodwill separately listed in financial statement, book value of goodwill is mortised to the asset group or asset group combination that would benefits from synergy of business merger. When test result demonstrates the recoverable amount of asset group or asset group combination amortized is lower than its book value, the corresponding impairment loss shall be recognized. The impairment loss should deduct book value of goodwill in asset group or asset group combination and, on the basis of the percentage of other assets other than goodwill, deduct book value of other assets in proportion.

25. Long-term unamortized expense

Unit: Yuan

| Item | Opening balance | Increase in the period | Amortized amount in the period | Other reductions | Closing balance | Reason for other reductions |
|--|-----------------|------------------------|--------------------------------|------------------|-----------------|-----------------------------|
| Use right of Fangxing Building | 2,024,535.60 | | 71,665.08 | | 1,952,870.52 | |
| Charge for use of 12/F, Taijing Building | 6,138,889.00 | | 283,333.32 | | 5,855,555.68 | |
| Charge for use of No. 2 garage | 1,305,500.26 | | 372,999.96 | | 932,500.30 | |
| Taiyue Garden decoration | 535,845.99 | | 133,961.52 | | 401,884.47 | |
| Taiji Building decoration | 361,156.16 | | 103,187.40 | | 257,968.76 | |
| Decoration of General Staff 4th Department | 894,574.72 | | 181,947.36 | | 712,627.36 | |
| Decoration fee | 29,983.20 | | 29,983.20 | | | |
| Decoration fee relating to Shenzhen Office | | 111,104.83 | 9,799.69 | | 101,305.14 | |
| Decoration fee relating to Beijing Smartdot Technology Co., Ltd. | | 2,003,050.34 | 69,070.71 | | 1,933,979.63 | |
| Total | 11,290,484.93 | 2,114,155.17 | 1,255,948.24 | | 12,148,691.86 | — |

Description of long-term unamortized expense

26. Deferred income tax assets and deferred income tax liability

(1) Net amount of deferred income tax assets and deferred income tax liability without offset

Deferred income tax assets and deferred income tax liability that have been recognized

Unit: Yuan

| Item | Closing balance | Opening balance |
|---------------------------------------|----------------------------|----------------------------|
| Deferred income tax assets: | | |
| Asset impairment provision | 19,854,656.41 | 13,415,449.61 |
| Provision for expenses | 1,691,128.07 | — |
| Deferred income | 2,414,363.47 | — |
| Amortization of intangible asset | <u>469,442.50</u> | <u>—</u> |
| Subtotal | <u>24,429,590.45</u> | <u>13,415,449.61</u> |
| Deferred income tax liability: | | |
| Intangible asset evaluation increment | <u>346,030.28</u> | |
| Subtotal | <u>346,030.28</u> | |

Details of unrecognized deferred income tax assets

Unit: Yuan

| Item | Closing balance | Opening balance |
|---------------------------------|----------------------------|----------------------------|
| Deductable temporary difference | 166,501.60 | — |
| Deductable loss | <u>2,820,865.98</u> | <u>1,487,579.46</u> |
| Total | <u>2,987,367.58</u> | <u>1,487,579.46</u> |

Deductible loss of unrecognized deferred income tax assets will be matured in the following year

Unit: Yuan

| Year | Closing balance | Opening balance | Remark |
|-------------|----------------------------|----------------------------|---------------|
| 2016 | 34,235.32 | 34,235.32 | |
| 2017 | 1,453,344.14 | 1,453,344.14 | |
| 2018 | <u>1,333,286.52</u> | <u>—</u> | |
| Total | <u>2,820,865.98</u> | <u>1,487,579.46</u> | — |

Details of taxable difference and deductible difference

Unit: Yuan

| Item | Amount of temporary difference | |
|---------------------------------------|---------------------------------------|--------------------------------|
| | End of the period | Beginning of the period |
| Item of taxable difference | | |
| Intangible asset evaluation increment | <u>3,460,306.80</u> | <u>—</u> |
| Subtotal | <u>3,460,306.80</u> | <u>—</u> |
| Item of deductible difference | | |
| Asset impairment provision | 135,557,523.88 | 88,797,726.24 |
| Provision for expenses | 16,911,280.66 | — |
| Deferred income | 19,199,810.21 | — |
| Amortization of intangible asset | <u>3,181,926.12</u> | <u>—</u> |
| Subtotal | <u>174,850,540.87</u> | <u>88,797,726.24</u> |

(2) Net amount of deferred income tax asset and deferred income tax liability after offset

Composition of deferred income tax asset and liability after offset

Unit: Yuan

| Item | Deferred income tax asset or liability after offset in the end of period | Deductable or taxable temporary difference after offset in the end of period | Deferred income tax asset or liability after offset in the beginning of period | Deductable or taxable temporary difference after offset in the beginning of period |
|-------------------------------|---|---|---|---|
| Deferred income tax asset | 24,429,590.45 | | 13,415,449.61 | |
| Deferred income tax liability | 346,030.28 | | | |

Details of deferred income tax asset and deferred income tax liability offset

Unit: Yuan

| Item | Offset amount in the period |
|-------------|------------------------------------|
| | |

Description of deferred income tax asset and deferred income tax liability

27. Details of asset impairment provision*Unit: Yuan*

| Item | Book balance in the beginning of the period | | Reduction in the period | | Book balance in the end of the period |
|---|--|-------------------------------|--------------------------------|------------------|--|
| | | Increase in the period | Reversed | Write-off | |
| I. Bad-debt provision | 85,844,993.06 | 39,789,865.16 | | | 125,634,858.22 |
| II. Inventory falling price reserve | 2,952,733.18 | 1,916,434.08 | | | 4,869,167.26 |
| III. Impairment provision long-term equity investment | <u>5,220,000.00</u> | <u>—</u> | | | <u>5,220,000.00</u> |
| Total | <u>94,017,726.24</u> | <u>41,706,299.24</u> | | | <u>135,724,025.48</u> |

Details of asset impairment

28. Other current assets*Unit: Yuan*

| Item | Closing balance | Opening balance |
|-------------------------------------|--------------------|--------------------|
| Description of other current assets | | |
| None | | |

29. Short-term borrowings*(1) Classification of short-term borrowings**Unit: Yuan*

| Item | Closing balance | Opening balance |
|-------------------|-----------------------------|--------------------|
| Credit borrowings | <u>25,000,000.00</u> | |
| Total | <u><u>25,000,000.00</u></u> | |

Classification of short-term borrowings

*(2) Short-term borrowings matured but not liquidated**Unit: Yuan*

| Borrower | Loan amount | Loan interest rate | Use of loan fund | Reason for failure to pay off on schedule | Expected repayment period |
|----------|----------------|-----------------------|---------------------|--|---------------------------------|
|----------|----------------|-----------------------|---------------------|--|---------------------------------|

Amount paid after balance sheet date

Description of short-term borrowings, including the extension of matured short-term borrowings, specifying extension condition and new maturity date.

None

30. Trading financial liabilities*Unit: Yuan*

| Item | Fair value in the end of period | Fair value in the beginning of period |
|---|--|--|
| Trading bond issued | 0.00 | 0.00 |
| Financial liability recorded at fair value and with its variation included into the loss and profit of current period | 0.00 | 0.00 |
| Derivative financial liability | 0.00 | 0.00 |
| Other financial liability | 0.00 | 0.00 |

Description of trading financial liability

31. Notes payable*Unit: Yuan*

| Category | Closing balance | Opening balance |
|------------------|------------------------------|-----------------------------|
| Trade acceptance | 62,812,902.98 | 52,454,020.49 |
| Bank acceptance | <u>59,203,758.68</u> | <u>19,932,867.00</u> |
| Total | <u><u>122,016,661.66</u></u> | <u><u>72,386,887.49</u></u> |

Amount due within the next accounting period is 122,016,661.66 yuan.

Description of notes payable

32. Accounts payable*(1) Accounts payable**Unit: Yuan*

| Item | Closing balance | Opening balance |
|-----------------------|------------------------|------------------------|
| Project funds Payable | 603,297,270.75 | 374,251,422.45 |
| Commodity fee Payable | <u>40,351,814.37</u> | <u>40,833,583.19</u> |
| Total | <u>643,649,085.12</u> | <u>415,085,005.64</u> |

*(2) Shareholder with more than 5% (including 5%) of voting rights in the account payable in report period**Unit: Yuan*

| Unit name | Closing balance | Opening balance |
|---|------------------------|------------------------|
| 15th Institute, CETC | 1,559,586.75 | 119,134.31 |
| Beijing Zunguan Science & Technology Co., Ltd. | 78,000.00 | |
| 54TH INSTITUTE, CETC | 653,938.00 | |
| Chengdu Westone Information Industry Inc | 364,000.00 | 364,000.00 |
| Beijing Huaxing Taiji Information Technology Co., Ltd. | 282,354.00 | 0.00 |
| Hebei Far East Harris Communication Co., Ltd. | | 266,000.00 |
| Hangzhou Hikvision Digital Technology Co., Ltd., Beijing Branch | 1,247,317.00 | 2,662,688.00 |
| Shanghai Taiji Huafang Information System Co., Ltd. | <u>1,449,060.30</u> | <u>2,550,000.00</u> |
| Total | <u>5,634,256.05</u> | <u>5,961,822.31</u> |

(3) Accounts payable with significant amount with account age more than one year

| Name of creditor | Amount | Reason for repayment failure | Payback or not after balance sheet date |
|--|----------------------|---------------------------------|---|
| Sichuan Changhong IT Information Product Co. Ltd. | 8,026,621.86 | Construction work not completed | Yes |
| Beijing Tianyou Lutong Communication Technology Co., Ltd. | 4,140,169.15 | Construction work not completed | No |
| GuoChuang Software Co., Ltd | 3,262,995.60 | Construction work not completed | No |
| Beijing Dongchen Shengshi Construction Engineering Co., Ltd, | 2,963,864.19 | Construction work not completed | No |
| Nanjing Pantian Science and Technology Ltd. | 2,072,649.33 | Construction work not completed | No |
| Technovator International Science and Technology (Beijing) Co., Ltd. | 2,034,049.01 | Construction work not completed | No |
| Ningbo Dingxing Shengfa Information Technology Co., Ltd. | 1,883,385.37 | Construction work not completed | No |
| Beiming Software Co., Ltd. | 1,876,966.10 | Construction work not completed | No |
| Changhong IT Information Products CO.,LTD. | 1,827,500.00 | Construction work not completed | No |
| Golden Shield Engineering Safety Technology., Ltd., Ningbo Economic Development Zone | 1,810,085.62 | Construction work not completed | No |
| Beijing Xiaotong Network Technology Co., Ltd. | 1,685,372.00 | Construction work not completed | No |
| Guangzhou Yiguang Information Engineering Co., Ltd. | 1,671,836.61 | Construction work not completed | No |
| Beijing Sprint System Engineering Technology Co., Ltd. | 1,500,000.00 | Construction work not completed | No |
| Total | <u>34,755,494.84</u> | | No |

33. Deposit received*(1) Deposit received**Unit: Yuan*

| Item | Closing balance | Opening balance |
|----------------|-------------------------|-----------------------|
| Contract value | <u>1,014,410,385.88</u> | <u>957,704,876.99</u> |
| Total | <u>1,014,410,385.88</u> | <u>957,704,876.99</u> |

*(2) Shareholder with more than 5% (including 5%) of voting rights in the deposit received in report period**Unit: Yuan*

| Unit name | Closing balance | Opening balance |
|--|----------------------------|----------------------------|
| 15th Institute, CETC | 7,141,880.70 | 4,025,860.08 |
| CETC | 4,783,018.87 | 525,915.85 |
| Beijing Kingbase Information Technologies Inc. | 2,264.15 | 40,000.00 |
| 11th Institute, CETC | 1,420,007.29 | |
| 30th Institute, CETC | 1,239.32 | 10,670.84 |
| Beijing Taiji Huaneng Information System Co., Ltd. | 1,782.01 | 1,782.01 |
| CETC Changjiang Data Co., Ltd. | 16,605.82 | 16,605.82 |
| 54th Institute, CETC | 455,319.38 | 24,861.87 |
| CETC ACADEMY OF ELECTRONIC SCIENCE | 75,678.89 | 75,754.72 |
| 28th Institute, CETC | 40,497,301.63 | 32,006,292.87 |
| 34th Institute, CETC | | 24,860.08 |
| 22nd Institute, CETC | | 152,906.50 |
| Beijing Zunguan Science & Technology Co., Ltd. | | 84,905.66 |
| 27th Institute, CETC | 281,863.48 | 2,417,953.00 |
| CETC Integrated Information Engineering Research Center | 317,327.17 | 337,327.17 |
| Shanghai Taiji Huafang Information System Co., Ltd. | 29,792.00 | 29,792.00 |
| Hebei Far East Harris Communication Co., Ltd. | 496,670.99 | 496,670.99 |
| Beijing Taiji Huabei Property Co., Ltd. | | 12,423.75 |
| Total | <u>55,520,751.70</u> | <u>40,284,583.21</u> |

(3) Significant-amount advance payment with account age more than one year

| Name of creditor | Amount | Reason for no carry-over |
|---|-----------------------------|--------------------------|
| Tianjin Kangheng Information Technology Co., Ltd. | 1,124,013.99 | Project not completed |
| Shanghai 5th Construction Co., Ltd. | 1,215,522.65 | Project not completed |
| Ministry of Finance | 1,233,000.33 | Project not completed |
| Municipal Labour & Social Insurance Bureau | 1,252,373.44 | Project not completed |
| Beijing Jiaxun Feihong Electric Co., Ltd. | 1,321,637.79 | Project not completed |
| China Tobacco Shannxi Industrial Corporation | 1,503,418.80 | Project not completed |
| Beijing Dongfang Real Estate Investment Development Co., Ltd. | 1,565,708.08 | Project not completed |
| Institute of Geology, Chinese Academy of Sciences | 1,615,726.50 | Project not completed |
| Information Center, Ministry of Land and Resources | 1,450,449.16 | Project not completed |
| Shanghai Juxin Equipment Leasing Co., Ltd. | 1,727,359.67 | Project not completed |
| Unit 1 | 1,826,641.10 | Project not completed |
| Shanxi Department of Public Security | 1,838,513.73 | Project not completed |
| Bank of China Limited | 1,760,814.42 | Project not completed |
| Shanghai Shiyiduo Electronic Commerce Co., Ltd. | 2,123,378.02 | Project not completed |
| Unit 2 | 1,640,607.95 | Project not completed |
| Information Center, CPPCC | 1,437,542.74 | Project not completed |
| Unit 3 | 2,001,872.40 | Project not completed |
| Shangluo Department of Public Security | 2,639,257.86 | Project not completed |
| Beijing Public Security Bureau, | 2,555,703.47 | Project not completed |
| Nanjing Nari Group | 1,295,503.83 | Project not completed |
| China Development Bank, Inner Mongolia Branch | 3,652,220.25 | Project not completed |
| Chinese Academy of Geological Science | 5,374,750.42 | Project not completed |
| Shanghai High People's Court | 3,344,099.98 | Project not completed |
| Beijing Information Resource Management Center | 3,392,939.52 | Project not completed |
| Unit 4 | 1,100,269.61 | Project not completed |
| Beijing Electronic Technical Service Center | 2,366,750.87 | Project not completed |
| Unit 5 | 2,369,065.85 | Project not completed |
| Telecommunication Research Institute, MIIT | 1,609,860.52 | Project not completed |
| Unit 6 | 6,233,843.01 | Project not completed |
| 28th Institute, CETC | 1,028,796.16 | Project not completed |
| Unit 7 | <u>36,018,861.13</u> | Project not completed |
| Total | <u><u>99,620,503.25</u></u> | |

34. Employee pay payable

Unit: Yuan

| Item | Book balance in the beginning of the period | Increase in the period | Reduction in the period | Book balance in the end of the period |
|---|---|---------------------------|----------------------------|---|
| I. Wage, bonus, subsidy and allowance | 198,671.27 | 241,126,702.64 | 229,422,992.12 | 11,902,381.79 |
| II. Welfare expense of employee | | 261,456.71 | 261,456.71 | |
| III. Social insurance | 157,465.02 | 44,666,324.32 | 44,663,038.08 | 160,751.26 |
| Medical insurance premium | (17,938.15) | 14,609,315.96 | 14,594,852.70 | (3,474.89) |
| Basic endowment insurance | 157,305.71 | 26,818,122.29 | 26,828,839.41 | 146,588.59 |
| Unemployment insurance expense | 24,032.15 | 1,611,587.87 | 1,615,598.23 | 20,021.79 |
| Industrial injury insurance premium | (6,940.25) | 548,674.16 | 547,440.74 | (5,706.83) |
| Birth insurance premium | 1,005.56 | 1,078,624.04 | 1,076,307.00 | 3,322.60 |
| IV. Housing fund | 124,857.07 | 15,725,534.79 | 15,858,996.99 | (8,605.13) |
| V. Dismissal welfare | | 96,000.00 | 96,000.00 | |
| VI. Others | 446,803.73 | 4,189,560.42 | 4,175,600.08 | 460,764.07 |
| Including: labor union expenditure and personnel education fund | <u>436,859.89</u> | <u>4,189,560.42</u> | <u>4,175,600.08</u> | <u>450,820.23</u> |
| Total | <u>927,797.09</u> | <u>306,065,578.88</u> | <u>294,478,083.98</u> | <u>12,515,291.99</u> |

The amount in arrear relating to employee pay payable is 0.00 yuan.

Labor union expenditure and personnel education fund is 4,189,560.42 yuan, non-monetary welfare is 0.00 yuan, and compensation for termination of labor relation is 96,000.00 yuan.

Expected payment time and amount relating to employee pay payable.

35. Tax payable*Unit: Yuan*

| Item | Closing balance | Opening balance |
|--|-----------------------------|-----------------------------|
| VAT | 35,280,167.08 | 28,661,324.12 |
| Consumption tax | 0.00 | 0.00 |
| Business tax | 25,989,426.95 | 23,712,046.47 |
| Corporate income tax | 7,051,012.37 | 5,713,779.27 |
| Individual income tax | (2,576,651.72) | (2,224,956.31) |
| Urban maintenance and construction tax | 5,378,301.55 | 5,036,604.83 |
| Education surcharge | 3,182,956.34 | 2,917,806.75 |
| Local education surcharge | 1,089,079.92 | 963,236.72 |
| Others | <u>(6,140.99)</u> | <u>(2,508.91)</u> |
| Total | <u>75,388,151.50</u> | <u>64,777,332.94</u> |

Tax payable: where local tax authority agrees mutual adjustment of taxable income among subsidiaries and factories, it is required to specify the tax computation process.

36. Interest payable*Unit: Yuan*

| Item | Closing balance | Opening balance |
|---------------------------------|------------------------|------------------------|
| Description of interest payable | | |

37. Dividends payable

Unit: Yuan

| Unit name | Closing balance | Opening balance | Reason for failure to repay more than one year |
|----------------------------------|--------------------|--------------------|---|
| Description of dividends payable | | | |

38. Other payables

*(1) Other payables**Unit: Yuan*

| Item | Closing balance | Opening balance |
|--|-----------------------------|-----------------------------|
| Deposit and earnest money | 30,457,204.00 | 22,848,219.28 |
| Social insurance | 3,591,822.98 | 5,727,780.50 |
| Housing fund | 2,397,150.00 | |
| Payables for stock purchase | 13,190,626.50 | |
| Refund of handling charge relating to individual income tax | 1,163,943.68 | 973,450.39 |
| Receivable and payables relating to cooperation project | 8,399,200.00 | 8,399,200.00 |
| Advance money for another | <u>8,179,201.06</u> | <u>3,551,278.88</u> |
| Total | <u><u>67,379,148.22</u></u> | <u><u>41,499,929.05</u></u> |

(2) Shareholder with more than 5% (including 5%) of voting rights in other account payable in report period

Unit: Yuan

| Unit name | Closing balance | Opening balance |
|---|----------------------------|----------------------------|
| 15th Institute, CETC | 1,373,895.64 | 1,194,668.14 |
| 22nd Institute, CETC | 50,000.00 | 50,000.00 |
| 33rd Institute, CETC | 110,000.00 | |
| Beijing Taiji Xianxing Electronic Technology Co., Ltd. | 40.93 | 40.93 |
| Beijing Taiji Huaneng Information System Co., Ltd. | 6,552.00 | 6,552.00 |
| Shanghai Taiji Huafang Information System Co., Ltd. | <u>100,000.00</u> | <u>0.00</u> |
| Total | <u><u>1,640,488.57</u></u> | <u><u>1,251,261.07</u></u> |

(3) Other significant-amount payables with account age more than one year

| Name of creditor | Amount | Reason for repayment failure | Payback or not after balance sheet date |
|---|----------------------------|------------------------------------|--|
| Beijing Zhongguancun Development Group Limited | <u>8,399,200.00</u> | Project not completed | No |
| Total | <u><u>8,399,200.00</u></u> | | |

(4) Other significant-amount payables

| Name of creditor | Year-end balance | Nature of content |
|--|-----------------------------|--|
| Chongqing Water Conservancy Information Center | 1,279,300.00 | Performance deposit |
| Beijing Haidian District Social Security Fund Management Center | 3,120,928.35 | Social insurance |
| Beijing Housing Provident Fund Management Center | 2,397,150.00 | Housing fund |
| Beijing Zhongguancun Development Group Limited | 8,399,200.00 | Receivable and payables relating to cooperation project |
| Weixinfeng (Tianjin) Investment Partnership (Limited) | 5,798,869.63 | Payables for stock purchase |
| Liu Ying | 2,435,762.83 | Payables for stock purchase |
| Yu Xiaoyang | 4,955,994.04 | Payables for stock purchase |
| Cisco Systems, Inc. | 2,378,620.44 | Advance money for another |
| A bureau of the Headquarters of the General Staff | <u>2,748,500.00</u> | Performance deposit |
| Total | <u><u>33,514,325.29</u></u> | |

39. Estimated liabilities

Unit: Yuan

| Item | Opening balance | Increase in the period | Reduction in the period | Closing balance |
|------|-----------------|------------------------|-------------------------|-----------------|
|------|-----------------|------------------------|-------------------------|-----------------|

Estimated liabilities

40. Non-current liability to be matured in one year

*(1) Non-current liability to be matured in one year**Unit: Yuan*

| Item | Closing balance | Opening balance |
|------|-----------------|-----------------|
|------|-----------------|-----------------|

(2) Long-term borrowing to be matured in one year

Long-term loan due within one year

Unit: Yuan

| Item | Closing balance | Opening balance |
|------|-----------------|-----------------|
|------|-----------------|-----------------|

Amount of borrowings overdue that is extended among long-term loan due within one year

Top 5 long-term loan due within one year

Unit: Yuan

| Lender | Starting date of borrowings | Ending date of borrowings | Currency type | Interest rate (%) | Closing balance | | Opening balance | |
|--------|-----------------------------|---------------------------|---------------|-------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | | | | | Amount in foreign currency | Amount in domestic currency | Amount in foreign currency | Amount in domestic currency |

Borrowings overdue in long-term loan due within one year

Unit: Yuan

| Lender | Amount of borrowings | Overdue time | Annual interest rate(%) | Purpose of borrowings | Reason for failure to make repayment | Expected repayment date |
|--------|----------------------|--------------|-------------------------|-----------------------|--------------------------------------|-------------------------|
|--------|----------------------|--------------|-------------------------|-----------------------|--------------------------------------|-------------------------|

Amount repaid after balance sheet date

Long-term loan due within one year

(3) Bonds payable due within one year

Unit: Yuan

| Bond name | Book value | Issue date | Bond period | Amount issued | Interest payable in the beginning of period | Accrued interest in the period | Interest paid in the period | Interest payable in the end of period | Closing balance |
|-----------|------------|------------|-------------|---------------|---|--------------------------------|-----------------------------|---------------------------------------|-----------------|
|-----------|------------|------------|-------------|---------------|---|--------------------------------|-----------------------------|---------------------------------------|-----------------|

Description of bonds payable due within one year

(4) Long-term payable due within one year

Unit: Yuan

| Borrower | Period | Initial amount | Interest rate (%) | Accrued interest | Closing balance | Conditions of a loan |
|----------|--------|----------------|-------------------|------------------|-----------------|----------------------|
|----------|--------|----------------|-------------------|------------------|-----------------|----------------------|

Description of long-term payable due within one year

41. Other current liabilities

Unit: Yuan

| Item | Book balance in the end of the period | Book balance in the beginning of the period |
|------|---------------------------------------|---|
|------|---------------------------------------|---|

Description of other current liabilities

42. Long-term loan*(1) Classification of long-term loan**Unit: Yuan*

| Item | Closing balance | Opening balance |
|------|--------------------|--------------------|
|------|--------------------|--------------------|

Classification of long-term loan

*(2) Top 5 long-term loan**Unit: Yuan*

| Lender | Starting date of borrowings | Ending date of borrowings | Currency type | Interest rate (%) | Closing balance | | Opening balance | |
|--------|-----------------------------------|---------------------------------|------------------|----------------------|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|
| | | | | | Amount in foreign currency | Amount in domestic currency | Amount in foreign currency | Amount in domestic currency |

For long-term loan formed due to extension of loan overdue, it is necessary to specify the conditions for extension, the principal, interest rate, expected repayment arrangement, etc.

43. Bonds payable*Unit: Yuan*

| Bond name | Book value | Issue date | Bond period | Amount issued | Interest payable in the beginning of period | Accrued interest in the period | Interest paid in the period | Interest payable in the end of period | Closing balance |
|-----------|------------|------------|-------------|------------------|---|--------------------------------------|--------------------------------|--|--------------------|
|-----------|------------|------------|-------------|------------------|---|--------------------------------------|--------------------------------|--|--------------------|

Specify the conditions for convertible bonds and conversion time.

44. Long-term payable*(1) Top 5 long-term payable**Unit: Yuan*

| Unit | Period | Initial amount | Interest rate (%) | Accrued interest | Closing balance | Conditions of a loan |
|------|--------|----------------|-------------------|------------------|-----------------|----------------------|
|------|--------|----------------|-------------------|------------------|-----------------|----------------------|

*(2) Finance lease payable in the long-term payable**Unit: Yuan*

| Unit | Closing balance | | Opening balance | |
|------|------------------|-----|------------------|-----|
| | Foreign currency | RMB | Foreign currency | RMB |

Amount guaranteed independent third-party for finance lease.

45. Special accounts payable*Unit: Yuan*

| Item | Opening balance | Increase in the period | Reduction in the period | Closing balance | Remark |
|------|-----------------|------------------------|-------------------------|-----------------|--------|
|------|-----------------|------------------------|-------------------------|-----------------|--------|

Description of special accounts payable

46. Other non-current liabilities*Unit: Yuan*

| Item | Book balance in the end of the period | Book balance in the beginning of the period |
|-----------------|---------------------------------------|---|
| Deferred income | <u>20,791,899.75</u> | <u>12,465,802.99</u> |
| Total | <u>20,791,899.75</u> | <u>12,465,802.99</u> |

*Description of other non-current liabilities**Liabilities relating to governmental subsidy**Unit: Yuan*

| Liability item | Opening balance | Newly increased amount of subsidy in this period | Amount included in non-business income in the period | Other changes | Closing balance | Related to assets/ Related to income |
|--|-----------------|--|--|---------------|-----------------|--------------------------------------|
| Carrier-level firewall R&D and industrialization | 175,000.00 | | | | 175,000.00 | Related to assets |
| RFID product R&D and industry application demonstration 121 | 1,040,551.56 | | 348,708.29 | | 691,843.27 | Related to income |
| Green data center monitoring management system | 1,286.50 | | | | 1,286.50 | Related to assets |
| Information system (governmental affair and medical treatment) operation maintenance system R&D | 494,671.01 | | | | 494,671.01 | Related to assets |
| R&D of reliable high-performance WEB safety protection network | 150,000.00 | | | | 150,000.00 | Related to assets |
| Special fund for information monitoring and pre-warning platform of Zhongguancun Science and Technology Park | 1,040,010.00 | | 95,000.00 | | 945,010.00 | Related to income |
| R&D and application of emergency guide terminal product | 566,946.00 | | 566,946.00 | | | Related to income |
| R&D of data center virtual resource scheduling oriented for social management and service | 2,695,537.92 | | 165,699.66 | | 2,529,838.26 | Related to income |
| Special funds for Internet of Things Contract Energy Management of Zhongguancun Science and Technology Park | 1,125,000.00 | | 1,125,000.00 | | | Related to income |
| R&D and application demonstration of NPC functional support system | | 550,000.00 | 550,000.00 | | | Related to income |
| Special fund for promotion of transformation and industrialization of scientific achievements in Haidian District 2012 | 1,000,000.00 | | 1,000,000.00 | | | Related to income |
| Critical Technical Research and Demonstration Application of Internet of Things Mass Data Processing and Decision-making Analysis Oriented for Safe Operation and Emergency Management | 4,176,800.00 | | 4,176,800.00 | | | Related to income |
| Critical Technical Research and Demonstration Application of Governmental Affair Information System Based on Cloud Computation | | 620,000.00 | 620,000.00 | | | Related to income |
| Critical technical research and demonstration application of smart Yan'an functional application support platform | | 1,000,000.00 | 1,000,000.00 | | | Related to income |
| Critical technical research of Internet of Things oriented for urban appearance management | | 3,000,000.00 | 3,000,000.00 | | | Related to income |
| Industrialization of secret-related information system comprehensive management platform | | 4,980,000.00 | 4,980,000.00 | | | Related to income |
| Per-warning system assuring safe and economic operation of data center | | 1,000,000.00 | | | 1,000,000.00 | Related to assets |
| Shannxi Science and Technology Innovation Project | | 1,300,000.00 | | | 1,300,000.00 | Related to assets |

| Liability item | Opening balance | Newly increased amount of subsidy in this period | Amount included in non-business income in the period | Other changes | Closing balance | Related to assets/ Related to income |
|---|-----------------|--|--|---------------|-----------------|--------------------------------------|
| Electronic information industry development foundation project — R&D of IT management system based on basic regulations on internal company control | | 720,000.00 | | | 720,000.00 | Related to assets |
| R&D and application of control system oriented for group customer mobile terminal level-to-level administration | | 3,000,000.00 | 758,138.86 | 19,700.00 | 2,222,161.14 | Related to assets |
| GRC software and service engineering, Beijing engineering lab innovation capacity construction project | | 8,970,000.00 | | | 8,970,000.00 | Related to assets |
| Copyright monitoring public service platform | | 110,212.96 | | | 110,212.96 | Related to assets |
| Digital work right protection service platform | | 33,048.70 | | | 33,048.70 | Related to assets |
| Digital content characteristics | | 2,000,000.00 | 551,172.09 | | 1,448,827.91 | Related to assets |
| Technological breakthrough and application relating to extraction and comparison | | | | | | |
| Nanjing Jiangning support funds | | 2,000,000.00 | 2,000,000.00 | | | Related to income |
| Total | 12,465,802.99 | 29,283,261.66 | 20,937,464.90 | 19,700.00 | 20,791,899.75 | — |

- Criteria for classification of “related to assets” or “related to income”: if assets are finally formed. Governmental subsidy that forms asset is recognized as governmental subsidy related to assets, and others are recognized as governmental subsidy related to income.
- Beijing Smartdot Technology Co., Ltd. has received the Notice of Municipal Science Committee on Returning Conference Expenses, the conference expense for “R&D and application of control system oriented for group customer mobile terminal level-to-level administration” project is approved to be 197,000 yuan, and it is required to refund 19,700 yuan to the Finance Supervision account of Municipal Science Committee. It is the other reduction amount.

47. Capital stock

Unit: Yuan

| | Increase and decrease (+ and-) in the period | | | | | | Closing balance |
|--------------|--|-------------------|----------------|---|--------|---------------|-----------------|
| | Opening balance | New stocks issued | Stock dividend | Accumulation fund converted into shares | Others | Subtotal | |
| Total shares | 237,094,080.00 | 37,317,664.00 | | | | 37,317,664.00 | 274,411,744.00 |

Description of stock change: in case of capital increase or decrease in report period, it is necessary to disclose the name of accounting firm and capital verification report number and for the limited liability company with operation period less than 3 years, specify the net assets only before the year of establishment; specify capital verification at the time of establishment when the limited liability company is changed as a joint-stock company.

- Note 1: In accordance with the resolution adopted in the 1st Temporary Shareholders' Meeting in 2013 and CSRC permit document [2013]1524 the Approval on Taiji Computer Corporation Limited to Issue Shares to Jiang Xiaodan et al and Purchase Assets and Raise Supporting Funds, the Company provides CETC private placement of RMB common stock (A share) no more than 10,489,060 shares, 1 yuan each, the pricing benchmark date is confirmed to be the issue date of resolution adopted in the 12th Session, 4th Board of Directors (March 20, 2013). Issue price is the average trading price of company stock of 20 transactions before pricing benchmark date, namely 15.72 yuan/share. The Company implements annual equity assignment plan in 2012, issues all shareholders 1.8 yuan (tax inclusive) per 10 shares and after ex-dividend, the issue price of private placed stock is adjusted as 15.54 yuan/share. Purchasers subscribe shares with cash, amounting to 162,999,992.40 yuan and after deduction of 7,910,000.00 yuan, securities underwriting fee, remaining part is 155,089,992.40 yuan and, after deduction of intermediary fee and other issuance fee 2,733,610.00 yuan, the net amount of raised fund is 152,356,382.40 yuan, of which 10,489,060 is converted into capital stock, and remaining part 141,867,322.40 yuan, is converted into capital reserve. The capital increase has been verified by Ruihua Certified Public Accountants (Special general partnership) which has issued capital verification report RHYZ [2013] No. 228A0002.
- Note 2: In accordance with the Asset Purchase Agreement and the Supplementary Agreement signed between the Company and shareholders of Beijing Smartdot Technologies Co., Ltd., Jiang Xiaodan, China Soft Capital (Beijing), Weixinfeng (Tianjin) Investment Partnership (Limited), and original shareholders Lv Yi and Lin Ming, as well as the resolution adopted in the 1st temporary shareholders' meeting in 2013 and the 18th session, 4th Board of Directors, Report of Taiji Computer Corporation Limited on Stock Issuance and Asset Purchase with Cash and Raising Supporting Funds and Connected Transaction, the Company has issued to original shareholders of Smartdot Technology by private placement of 26,828,604 common stocks, and original shareholders subscribe the shares issued through private placement with equity assets owned in Beijing Smartdot Technologies Co., Ltd. The capital increase has been verified by Ruihua Certified Public Accountants (Special general partnership) which has issued capital verification report RHYZ [2013] No. 228A0003.
- Note 3: On May 30, 2012, Wang Yafeng, former CFO of the Company, resigned. In accordance with the Guidelines of the Shenzhen Stock Exchange for Standardized Operation of Companies Listed on the Small and Medium-Sized Enterprise Board, the shares held by Wang Yafeng and the newly added shares were locked within 6 months after declared dismissal date, the shares traded in Securities Exchange within twelve months following above 6 months shall not exceed 50% of total shares of the Company (including those with and without limit on sale). Upon expiration of twelve months following six months after declared dismissal date, all shares without limit on sale held by Wang Yafeng would be unlocked and till December 31, 2013, all shares held by Wang have been unlocked, and 495,000 shares had been locked in the year.
- Note 4: On March 12, 2010, 15th Institute, CETC, controlling shareholder, committed not to transfer or entrust others to manage company shares held by itself directly or indirectly and nor buy back the part of shares within thirty six months since IPO date. Till March 12, 2013, the shares had been completely unlocked.
- Note 5: In accordance with the Report of Taiji Computer Corporation Limited on Stock Issuance and Asset Purchase with Cash and Raising Supporting Funds and Connected Transaction (CSC Corporation CSC Corporation notification), the Company transfers 91% shares of Beijing Smartdot Technology Co., Ltd. to Jiang Xiaodan, et al, Jiang Xiaodan, Lv Yi, Li Qing and Weixinfeng (Tianjin) Investment Partnership (Limited) respectively committed not to transfer, by any means, the shares issued by Taiji in this transaction within thirty six months after the issuance, the listing and circulating date is December 27, 2016. China Soft Capital (Beijing), Lin Ming, Chen Yonggang, Dai Yusheng, Tang Tao, Wang Shuang, Beijing Danshui River Investment Co., Ltd., Mei Yisheng, Li Weicheng, Tang Chunsheng, Beijing Smartdot Zhixin Investment Consulting Co., Ltd., Guangzhou Rishen Investment, Co., Ltd., Beijing Zhongkeshang Environmental Technology Co., Ltd. and Liu Chaosheng respectively commit not to transfer, by any means, the shares issued by Taiji in this

transaction within thirty six months after the issuance. (Listing and circulating date is December 27, 2014); thirty percent (rounded off) of the shares issued by Taiji through this transaction shall not be transferred by any means within thirty six months after issuance date. CETC undertakes not to transfer, by any means, the shares issued by Taiji in this transaction within thirty six months after the issuance. After the issuance, Taiji shares acquired by above object because of bonus given by Taiji or conversion into capital stock, shall also comply with above commitment.

48. Treasury stock

Description of treasury stock

49. Special reserve

Description of special reserve

50. Capital reserve

Unit: Yuan

| Item | Opening balance | Increase in the period | Reduction in the period | Closing balance |
|------------------------------------|-----------------------|------------------------|-------------------------|-------------------------|
| Asset premium (Capital premium) | 512,737,184.05 | 531,955,224.56 | | 1,044,692,408.61 |
| Other capital reserves | <u>2,714,695.17</u> | <u>—</u> | | <u>2,714,695.17</u> |
| Total | <u>515,451,879.22</u> | <u>531,955,224.56</u> | | <u>1,047,407,103.78</u> |

Description of capital reserve

The Company issued 37,317,664 common stocks through private placement at the price of 15.54 yuan/share, one yuan/share is included into the capital stock, 531,955,224.56 yuan, the net amount after deduction of issuance fee and other necessary expenses, is included into capital reserve.

51. SurAdd public accumulation

Unit: Yuan

| Item | Opening balance | Increase in the period | Reduction in the period | Closing balance |
|---------------|----------------------|------------------------|-------------------------|----------------------|
| Legal reserve | <u>43,887,425.54</u> | <u>12,999,510.76</u> | | <u>56,886,936.30</u> |
| Total | <u>43,887,425.54</u> | <u>12,999,510.76</u> | | <u>56,886,936.30</u> |

Where surAdd public accumulation is converted into capital stock, used to cover the deficit and assign dividends, the related resolution shall be specified.

In accordance with the Company Law and articles of association, the Group provides the provision of surAdd public accumulation in the light of 10% of net profit and the accumulated amount of legal surAdd public accumulation is above 50% of the company's registered capital, no provision shall be made.

After provision of surAdd public accumulation, other surAdd reserves may be withdrawn. Subject to approval, the other surAdd public accumulation may be used to cover the loss of previous years or increase capital stock.

52. General risk reserve

Description of general risk reserve

53. Undistributed profit

Unit: Yuan

| Item | Amount | Withdrawal or distribution proportion |
|--|------------------------------|---|
| Undistributed profit before adjustment in the end of last year | <u>357,216,746.16</u> | — |
| Undistributed profit before adjustment in the beginning of last year | 357,216,746.16 | — |
| Add: Net profit in the period classified as parent company owner | 176,809,800.66 | — |
| Less: Provision of legal reserve | 12,999,510.76 | |
| Allocation to owner (shareholder) | <u>42,676,934.40</u> | |
| Undistributed profit in the end of the period | <u><u>478,350,101.66</u></u> | — |

Details of undistributed profits in the beginning of the year subject to adjustment

- 1) Retroactive adjustment is made in accordance with ASBE and related new rules, the undistributed profits in the beginning of the year is therefore affected.
- 2) The undistributed profits in the beginning of the year is affected due to accounting policy changes.
- 3) The undistributed profits in the beginning of the year is affected due to correction of major accounting error.
- 4) The undistributed profits in the beginning of the year is affected due to change of combination range under same control.

- 5) The undistributed profits in the beginning of the year is affected due to other adjustments.

Undistributed profits: for the company initially publicly offering securities, it is required to expressly specify if the accumulated profits before issuance is shared by original and new shareholders subject to resolution adopted by shareholders' meeting; if the accumulated profits before issuance is allocated to and given to original shareholders before issuance subject to resolution adopted by shareholders' meeting, the Company shall expressly disclose the audited profit among dividends payable to be paid to original shareholders.

In accordance with Profit Distribution Scheme in 2012 approved at shareholders' meeting on April 19, 2013, the Company issued cash dividend to all shareholders, 0.18 yuan per share and based on issued shares 237,094,080, 42,676,934.40 yuan in total.

54. Business revenue and cost

(1) Business revenue and cost

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period |
|----------------------|---------------------------------|--------------------------------------|
| Main business income | 3,366,376,084.61 | 2,888,276,885.17 |
| Business cost | 2,788,463,318.04 | 2,447,517,149.41 |

(2) Main business (industry-classified)

Unit: Yuan

| Name of industry | Amount accrued in the period | | Amount accrued in the last period | |
|------------------|------------------------------|-------------------------|-----------------------------------|-------------------------|
| | Operation revenue | Business cost | Operation revenue | Business cost |
| Government | 1,134,836,587.45 | 930,378,267.18 | 1,022,458,080.45 | 855,686,514.24 |
| Public utilities | 449,687,692.88 | 367,804,339.42 | 408,656,315.47 | 350,004,696.85 |
| Finance | 463,553,639.61 | 408,637,956.20 | 158,465,797.03 | 121,935,388.36 |
| Energy | 448,773,031.63 | 379,657,311.95 | 494,083,241.84 | 438,495,231.74 |
| Finance | 769,307,584.26 | 616,167,052.30 | 687,413,853.45 | 576,217,689.43 |
| Others | 100,217,548.78 | 85,818,390.99 | 117,199,596.93 | 105,177,628.79 |
| Total | <u>3,366,376,084.61</u> | <u>2,788,463,318.04</u> | <u>2,888,276,885.17</u> | <u>2,447,517,149.41</u> |

(3) Main business (product-classified)

Unit: Yuan

| Product name | Amount accrued in the period | | Amount accrued in the last period | |
|--------------------------------|------------------------------|-------------------------|-----------------------------------|-------------------------|
| | Operation revenue | Business cost | Operation revenue | Business cost |
| Industry solution and service | 2,388,389,268.11 | 1,958,016,115.84 | 1,916,420,593.58 | 1,606,794,874.80 |
| IT PRODUCT VALUE-ADDED SERVICE | 776,491,442.85 | 732,508,472.24 | 823,407,776.46 | 774,388,886.55 |
| IT CONSULTING | <u>201,495,373.65</u> | <u>97,938,729.96</u> | <u>148,448,515.13</u> | <u>66,333,388.06</u> |
| Total | <u>3,366,376,084.61</u> | <u>2,788,463,318.04</u> | <u>2,888,276,885.17</u> | <u>2,447,517,149.41</u> |

(4) Main business (region-classified)

Unit: Yuan

| Area name | Amount accrued in the period | | Amount accrued in the last period | |
|-----------------|------------------------------|-------------------------|-----------------------------------|-------------------------|
| | Operation revenue | Business cost | Operation revenue | Business cost |
| Beijing area | 1,565,380,900.97 | 1,274,531,975.03 | 1,373,610,677.87 | 1,146,979,544.18 |
| Eastern China | 510,270,428.55 | 427,526,641.60 | 570,604,948.85 | 493,990,122.49 |
| North China | 215,998,767.71 | 176,204,234.40 | 241,507,123.15 | 202,884,631.37 |
| Northwest China | 177,787,392.25 | 159,230,488.21 | 108,953,204.44 | 92,982,367.85 |
| South China | 196,758,294.23 | 156,949,536.51 | 146,345,547.41 | 113,222,733.03 |
| Other regions | <u>700,180,300.90</u> | <u>594,020,442.29</u> | <u>447,255,383.45</u> | <u>397,457,750.49</u> |
| Total | <u>3,366,376,084.61</u> | <u>2,788,463,318.04</u> | <u>2,888,276,885.17</u> | <u>2,447,517,149.41</u> |

(5) Operation revenue of top five customers

Unit: Yuan

| Customer name | Main business income | Percentage accounting for operation revenue of the Company (%) |
|---------------|-----------------------|--|
| Customer 1 | 110,372,995.06 | 3.28% |
| Customer 2 | 109,734,385.54 | 3.26% |
| Customer 3 | 64,938,039.82 | 1.93% |
| Customer 4 | 64,550,546.37 | 1.92% |
| Customer 5 | <u>58,470,970.30</u> | <u>1.74%</u> |
| Total | <u>408,066,937.09</u> | <u>12.13%</u> |

Description of operation revenue

None

55. Revenue from contract project

Unit: Yuan

| Fixed price contract | Contract project | Amount | Accumulated incurred cost | Accumulated recognized gross profit (“()” for loss) | Amount settled |
|----------------------|------------------|--------|---------------------------|--|----------------|
| Cost-Add contract | Contract project | Amount | Accumulated incurred cost | Accumulated recognized gross profit (“()” for loss) | Amount settled |

Description of contract project

56. Business tax and surcharge

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period | Calculation standard |
|--|------------------------------|-----------------------------------|----------------------|
| Business tax | 16,171,985.59 | 28,232,282.66 | |
| Urban maintenance and construction tax | 6,186,721.30 | 4,765,667.39 | |
| Education surcharge | 2,672,453.65 | 2,036,093.02 | |
| Local education surcharge | 1,288,822.09 | 1,401,127.82 | |
| Others | <u>390,557.26</u> | <u>1,035.63</u> | |
| Total | <u><u>26,710,539.89</u></u> | <u><u>36,436,206.52</u></u> | — |

Description of business tax and surcharge

57. Selling expenses

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period |
|--------------------------------------|---------------------------------|--------------------------------------|
| Office expense | 9,864,225.48 | 5,992,426.34 |
| Travel expense | 13,700,454.64 | 5,728,956.52 |
| Business entertainment | 8,607,739.11 | 7,888,627.38 |
| Freight and miscellaneous charges | 4,577,823.18 | 3,577,335.02 |
| Communication expense | 1,727,673.90 | 1,262,962.36 |
| Conference expense | 1,059,698.86 | — |
| Wage | 2,359,599.72 | 22,948,839.99 |
| Stamp duty | 201,163.02 | — |
| Water and electricity | 97,500.00 | 2,493,380.21 |
| Others | 3,164,591.56 | 14,523,430.84 |
| Total | <u>45,360,469.47</u> | <u>64,415,958.66</u> |

58. Administration expense

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period |
|-------------------------------|---------------------------------|--------------------------------------|
| Wage | 164,022,416.43 | 94,026,394.58 |
| Social insurance | 33,301,562.87 | 17,871,545.85 |
| Office expense | 17,237,627.93 | 12,703,384.41 |
| Technical development expense | 27,258,337.77 | 12,277,111.89 |
| Amortization expense | 13,189,143.21 | 3,874,777.54 |
| Parent company management fee | 11,518,129.62 | 7,239,910.98 |
| Parent company management fee | 12,100,326.14 | 7,034,770.22 |
| Miscellaneous expenses | 6,563,786.31 | 9,591,779.50 |
| House lease rental | 12,419,512.06 | 6,084,117.00 |
| Depreciation | 4,274,306.35 | 4,423,472.10 |
| Others | 20,826,200.34 | 20,074,936.80 |
| Total | <u>322,711,349.03</u> | <u>195,202,200.87</u> |

59. Financial expense*Unit: Yuan*

| Item | Amount accrued in the period | Amount accrued in the last period |
|---|---|--|
| Interest expense | 447,416.67 | — |
| Less: interest income | (9,507,220.52) | (14,044,209.93) |
| Less: amount of capitalized interest | — | — |
| Exchange gain or loss | — | — |
| Less: Amount of capitalized exchange gain or loss | — | — |
| Others | <u>1,424,362.34</u> | <u>1,053,546.07</u> |
| Total | <u>(7,635,441.51)</u> | <u>(12,990,663.86)</u> |

60. Income from change of fair value*Unit: Yuan*

| Source of income from fair value change | Amount accrued in the period | Amount accrued in the last period |
|--|---|--|
| Description of income from fair value change | | |

61. Income from investment**(1) Details of income from investment***Unit: Yuan*

| Item | Amount accrued in the period | Amount accrued in the last period |
|--|---|--|
| Income from long-term equity investment calculated with cost method | 97,402.65 | 206,847.51 |
| Income from long-term equity investment calculated with equity method | 1,826,062.69 | 1,793,192.78 |
| Investment income from disposal of long-term equity investment | <u>—</u> | <u>(997,373.52)</u> |
| Total | <u>1,923,465.34</u> | <u>1,002,666.77</u> |

(2) Income from long-term equity investment calculated with cost method*Unit: Yuan*

| Investee | Amount accrued in the period | Amount accrued in the last period | Reason for increase and decrease variation of this period in comparison with last period |
|--|---|--|---|
| Sanxia Hi-Tech Information Technology Co., Ltd. | <u>97,402.65</u> | <u>206,847.51</u> | |
| Total | <u><u>97,402.65</u></u> | <u><u>206,847.51</u></u> | — |

(3) Income from long-term equity investment calculated with equity method*Unit: Yuan*

| Investee | Amount accrued in the period | Amount accrued in the last period | Reason for increase and decrease variation of this period in comparison with last period |
|---|---|--|---|
| Beijing Kingbase Information Technologies Inc. | 1,847,580.73 | 1,793,192.78 | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | <u>(21,518.04)</u> | <u>—</u> | |
| Total | <u><u>1,826,062.69</u></u> | <u><u>1,793,192.78</u></u> | — |

It is required to specify material limit (if any or not) on the collection of investment income.

62. Asset impairment loss*Unit: Yuan*

| Item | Amount accrued in the period | Amount accrued in the last period |
|---------------------------------|---|--|
| I. Bad debt loss | 28,669,948.25 | 20,381,341.23 |
| II. Loss on inventory valuation | <u>1,916,434.08</u> | <u>—</u> |
| Total | <u><u>30,586,382.33</u></u> | <u><u>20,381,341.23</u></u> |

63. Non-business income

(1) Non-business income

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period | Amount included in non-recurring profit and loss in current period |
|--|---------------------------------|--------------------------------------|---|
| Total gains from non-current asset disposal | 527.60 | 19,583.20 | 527.60 |
| Including: gains from fixed asset disposal | 527.60 | 19,583.20 | 527.60 |
| Governmental subsidy | 31,880,232.65 | 13,488,561.72 | 23,457,464.90 |
| Others | <u>350,017.35</u> | <u>12,000.00</u> | <u>350,017.35</u> |
| Total | <u><u>32,230,777.60</u></u> | <u><u>13,520,144.92</u></u> | <u><u>23,808,009.85</u></u> |

Description of non-business income

(2) Governmental subsidy included current profit and loss

Unit: Yuan

| Subsidy items | Amount accrued in the period | Amount accrued in the last period | Related to assets/ Related to income | Non- recurring profit and loss or not |
|--|---------------------------------|--------------------------------------|---|--|
| Drawback for software product | 8,422,767.75 | 2,453,561.72 | Related to income | No |
| Special funds for Internet of Things Contract Energy Management of Zhongguancun Science and Technology Park | 1,125,000.00 | 1,875,000.00 | Related to income | Yes |
| R&D and application demonstration of NPC functional support system | 550,000.00 | 660,000.00 | Related to income | Yes |
| E-government extranet cloud computation platform of Economic and Information Commission of Beijing | | 1,400,000.00 | Related to income | Yes |
| Special fund for independent innovation and industry development in core area | | 500,000.00 | Related to income | Yes |
| R&D and demonstration of digital archive system based on domestic CPU | | 1,920,000.00 | Related to income | Yes |
| Contract Energy Management System of Economic and Information Commission of Beijing Oriented to Internet of Things | | 730,000.00 | Related to income | Yes |
| Industrialization of secret-related information system comprehensive management platform | 6,100,000.00 | 3,500,000.00 | Related to income | Yes |
| One-stop service based on single-point login | | 450,000.00 | Related to income | Yes |
| Special fund for promotion of transformation and industrialization of scientific achievements in Haidian District 2012 | 1,000,000.00 | | Related to income | Yes |
| Critical Technical Research and Demonstration Application of Governmental Affair Information System Based on Cloud Computation | 620,000.00 | | Related to income | Yes |
| Critical technical research and demonstration application of smart Yan'an functional application support platform | 1,000,000.00 | | Related to income | Yes |
| Critical technical research of Internet of Things oriented for urban appearance management | 3,000,000.00 | | Related to income | Yes |
| Critical Technical Research and Demonstration Application of Internet of Things Mass Data Processing and Decision-making Analysis Oriented for Safe Operation and Emergency Management | 4,176,800.00 | | Related to income | Yes |
| Bonus subsidy for Zhongguancun Science and Technology Park | 150,000.00 | | Related to income | Yes |
| Trade mark promotion fund of China Technology Exchange Co., Ltd. | 500,000.00 | | Related to income | Yes |
| R&D subsidy of Beijing Bureau of Quality and Technical Supervision | 150,000.00 | | Related to income | Yes |
| Digital content characteristics Technological breakthrough and application relating to extraction and comparison | 551,172.09 | | Related to income | Yes |
| Nanjing Jiangning support funds | 2,000,000.00 | | Related to income | Yes |
| Total risk management and internal control platform software oriented to energy (power) industry | 600,000.00 | | Related to income | Yes |
| R&D and application of control system oriented for group customer mobile terminal level-to-level administration | 758,138.86 | | Related to income | Yes |

| Subsidy items | Amount accrued in the period | Amount accrued in the last period | Related to assets/ Related to income | Non- recurring profit and loss or not |
|--|---------------------------------|--------------------------------------|---|--|
| RFID product R&D and industry application demonstration 121 | 348,708.29 | | Related to income | Yes |
| Special fund for information monitoring and pre-warning platform of Zhongguancun Science and Technology Park | 95,000.00 | | Related to income | Yes |
| R&D and application of emergency guide terminal product | 566,946.00 | | Related to income | Yes |
| R&D of data center virtual resource scheduling oriented for social management and service | <u>165,699.66</u> | | Related to income | Yes |
| Total | <u>31,880,232.65</u> | <u>13,488,561.72</u> | — | — |

64. Non-business expenditure

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period | Amount included in non-recurring profit and loss in current period |
|---|---------------------------------|--------------------------------------|---|
| Total loss on disposal of non-current asset | 34,221.40 | 66,013.33 | 34,221.40 |
| Including: loss from fixed asset disposal | 34,221.40 | 66,013.33 | 34,221.40 |
| External donation | 250,000.00 | 695,000.00 | 250,000.00 |
| Others | <u>1,428,111.57</u> | <u>50.00</u> | <u>1,428,111.57</u> |
| Total | <u>1,712,332.97</u> | <u>761,063.33</u> | <u>1,712,332.97</u> |

Description of non-business expenses

Non-business expense — others are mainly the amount offset by corresponding project cost from deferred income of subsidiary, Beijing Smartdot Technology Co., Ltd.

65. Income tax expense*Unit: Yuan*

| Item | Amount accrued in the period | Amount accrued in the last period |
|--|---------------------------------|--------------------------------------|
| Income tax calculated according to tax law and related rules | 19,761,894.71 | 21,201,031.27 |
| Adjustment of deferred income tax | <u>(7,107,269.87)</u> | <u>(2,324,670.70)</u> |
| Total | <u>12,654,624.84</u> | <u>18,876,360.57</u> |

66. Calculation process of basic EPS and diluted EPS

Basic EPS shall be net profit in current period owned by common stock holder of the Company, divided by weighted average of issued common stock. The number of newly issued common stocks are calculated from date of consideration receivable (generally the stock issuance date) according to specific contract clauses.

The numerator of diluted EPS shall be confirmed as the net profit in current period owned by common stock holder of the Company after adjusting following factors: (1) Interest of dilutive potential ordinary share recognized as expense in current period; (2) Earnings or expenses generated by conversion of dilutive potential ordinary share; and (3) income tax influence related to above adjustments.

Denominator of diluted EPS equals the sum of following two items: (1) weighted average of ordinary shares issued by parent company in basic EPS; and (2) weighted average of ordinary share increased due to conversion of dilutive potential ordinary share into ordinary share.

To calculate weighted average of ordinary share increased due to conversion of dilutive potential ordinary share into ordinary share, it is assumed the dilutive potential ordinary shares issued in previous period were converted in the beginning of current period; dilutive potential ordinary share issued in current year are assumed to be converted on the issuance date.

(1) Amount of basic EPS and diluted EPS

| Profit in report period | Amount accrued in the year | | Amount accrued in the last year | |
|--|----------------------------|-------------|---------------------------------|-------------|
| | Basic EPS | Diluted EPS | Basic EPS | Diluted EPS |
| Net profit owned by ordinary shareholder of the Company | 0.75 | 0.75 | 0.56 | 0.56 |
| Net profit owned by ordinary shareholder of the Company after deduction of non-recurring gains or loss | 0.66 | 0.66 | 0.52 | 0.52 |

(2) Calculation of EPS and diluted EPS

(1) Net profit of current period owned by ordinary shareholders when basic EPS is calculated:

| Item | Amount accrued in the year | Amount accrued in the last year |
|--|----------------------------|---------------------------------|
| Net profit owned by ordinary shareholder of the Company in current period | 176,809,800.66 | 132,227,449.04 |
| Including: net profit from continuous operation | 176,809,800.66 | 132,227,449.04 |
| Net profit from termination of operation | | |
| Net profit owned by ordinary shareholder of the Company after deduction of non-recurring gains or loss | 157,159,859.31 | 123,284,422.82 |
| Including: net profit from continuous operation | 157,159,859.31 | 123,284,422.82 |
| Net profit from termination of operation | | |

1. When basic EPS is calculated, denominator is the weighted average of issued ordinary shares, with calculation process as follows:

| Item | Amount accrued in the year | Amount accrued in the last year |
|--|----------------------------|---------------------------------|
| Outstanding ordinary shares issued in the beginning of year | 237,094,080.00 | 197,578,400.00 |
| Add: weight number of ordinary shares issued in the year | — | 39,515,680.00 |
| Less: weight number of ordinary shares bought back in the year | — | — |
| Weight number of outstanding ordinary shares issued in the end of year | <u>237,094,080.00</u> | <u>237,094,080.00</u> |

When diluted EPS is calculated, net profit in current period owned by ordinary shareholder contains no dilutive potential ordinary shares, therefore diluted EPS equals to basic EPS.

67. Other comprehensive income

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period |
|------|---------------------------------|--------------------------------------|
|------|---------------------------------|--------------------------------------|

Description of other comprehensive income

68. Notes to cash flow statement

(1) Other cash received relating to business activities

Unit: Yuan

| Item | Amount |
|------------------------------------|------------------------------|
| Security deposit | 193,091,089.64 |
| Interest received | 13,619,954.23 |
| Reserve returned | 3,494,043.93 |
| Fund allocated | 29,883,261.66 |
| Gains or loss from other companies | 61,106,809.81 |
| Others | <u>24,115,682.01</u> |
| Total | <u><u>325,310,841.28</u></u> |

Other cash received relating to business activities

(2) Other cash paid relating to business activities

Unit: Yuan

| Item | Amount |
|------------------------------------|------------------------------|
| Expenditure | 88,718,659.08 |
| Guarantee deposit | 191,918,341.07 |
| Gains or loss from other companies | 59,560,602.59 |
| Others | <u>81,839,819.39</u> |
| Total | <u><u>422,037,422.13</u></u> |

Other cash paid relating to business activities

*(3) Other cash received relating to investment activities**Unit: Yuan*

| Item | Amount |
|-------------|---------------|
|-------------|---------------|

| | |
|---|--|
| Other cash received relating to investment activities | |
|---|--|

*(4) Other cash paid relating to investment activities**Unit: Yuan*

| Item | Amount |
|-------------|---------------|
|-------------|---------------|

| | |
|---|--|
| Other cash paid relating to investment activities | |
|---|--|

*(5) Other cash received relating to financial activities**Unit: Yuan*

| Item | Amount |
|-------------|---------------|
|-------------|---------------|

| | |
|--|--|
| Other cash received relating to financial activities | |
|--|--|

*(6) Other cash paid relating to financial activities**Unit: Yuan*

| Item | Amount |
|-------------|---------------|
|-------------|---------------|

| | |
|--|--|
| Other cash paid relating to financial activities | |
|--|--|

69. Supplementary materials of cash flow statement

(1) Supplementary materials of cash flow statement

Unit: Yuan

| Supplementary materials | Amount in the period | Balance of the last period |
|--|-------------------------|-------------------------------|
| 1. Regulate net profit into operating cash flow: | — | — |
| Net profit | 179,966,752.49 | 132,200,080.13 |
| Add: asset impairment provision | 30,586,382.33 | 20,381,341.23 |
| Depreciation of fixed asset, oil and gas asset and productive biological asset | 5,115,571.95 | 4,138,718.14 |
| Amortization of intangible asset | 12,029,616.85 | 1,652,481.83 |
| Amortization of long-term unamortized expense | 1,255,948.24 | 997,355.21 |
| Loss from disposal of fixed asset, intangible asset and other long-term asset (“()” for gains) | 33,693.80 | 46,430.13 |
| Financial expense (“()” for gains) | 447,416.67 | — |
| Investment loss (“()” for gains) | (1,923,465.34) | (1,002,666.77) |
| Reduction of deferred income tax asset “()” for gains) | (7,020,762.29) | (1,800,997.76) |
| Increase of deferred income tax liability “()” for reduction) | (86,507.58) | — |
| Reduction of inventory (“()” for gains) | (31,919,667.51) | (31,519,813.85) |
| Reduction of operating receivables “()” for gains) | (171,423,412.36) | (378,750,266.09) |
| Increase of operating receivables “()” for reduction) | 372,248,258.77 | 444,397,924.94 |
| Net cash flow generated from operating activity | 389,309,826.02 | 190,740,587.14 |
| 2. Major investment and financing activity not related to cash receipt and payment: | — | — |
| 3. Net change of cash and cash equivalent: | — | — |
| Cash balance in the end of period | 1,054,299,917.24 | 696,873,552.28 |
| Less: cash balance in the beginning of period | 696,873,552.28 | 963,740,582.95 |
| Net increase of cash and cash equivalent | 357,426,364.96 | (266,867,030.67) |

*(2) Acquisition or disposal of subsidiary and other business units in the report period**Unit: Yuan*

| Supplementary materials | Amount accrued in the period | Amount accrued in the last period |
|--|---|--|
| I: Information regarding the acquisition of subsidiary and other business units: | — | — |
| 1. Price of acquiring subsidiary and other business units | 490,490,006.16 | |
| 2. Cash and cash equivalent paid for acquiring subsidiary and other business units | 60,382,873.50 | |
| Less: Cash and cash equivalent held by subsidiary and other business units | 32,468,004.79 | |
| 3. Net cash paid for acquiring subsidiary and other business units | 27,914,868.71 | |
| 4. Net assets of subsidiary acquired | 127,641,091.95 | |
| Current asset | 204,257,520.54 | |
| Non-current asset | 14,755,676.49 | |
| Current liability | 44,104,690.45 | |
| Non-current liability | 39,106,638.18 | |
| II. Information regarding the disposal of subsidiary and other business units: | — | — |
| 1. Net cash received from disposal of subsidiary and other business units | | 6,885,767.62 |
| 2. Net asset of subsidiary disposed | | 8,547,866.87 |
| Current asset | | 9,961,167.03 |
| Non-current asset | | 756,314.28 |
| Current liability | | 2,169,614.44 |

(3) Composition of cash and cash equivalent*Unit: Yuan*

| Item | Closing balance | Opening balance |
|---|-------------------------|------------------------|
| I. Cash | <u>1,054,299,917.24</u> | <u>696,873,552.28</u> |
| Including: cash on hand | 643,024.34 | 2,360,196.48 |
| Bank deposit available for payment at any time | 1,014,036,449.27 | 693,568,128.54 |
| Other monetary funds available for payment at any time | <u>39,620,443.63</u> | <u>945,227.26</u> |
| II. Cash and cash equivalent balance in the end of period | <u>1,054,299,917.24</u> | <u>696,873,552.28</u> |

Description of supplementary materials of cash flow statement

70. Notes to statement of change in equity

Specify “Others” name and adjustment amount for the balance in the end of last year, the retroactive adjustment generated from enterprise merger under same control.

VIII. ACCOUNTING TREATMENT FOR ASSET SECURITIZATION BUSINESS**1. Major transaction arrangement, accounting treatment and bankruptcy isolation clauses relating to asset securitization business**

None

2. Special purpose entity for which the Company has no control power but actually undertake the risk*Unit: Yuan*

| Name | Total assets in the end of period | Total liability in the end of period | Net assets in the end of period | Total business revenue in the period | Net profit in the period | Remark |
|-------------|--|---|--|---|---------------------------------|---------------|
|-------------|--|---|--|---|---------------------------------|---------------|

IX. AFFILIATE AND RELATED TRANSACTION

1. Information regarding the parent company

| Name of parent company | Relation | Enterprise type | Registered address | Legal representative | Business nature | Registered capital | Percentage held by parent company in the Company (%) | Voting power percentage held by parent company in the Company (%) | Final controller | Organization code |
|------------------------|-------------------|------------------------------------|--------------------|----------------------|----------------------|--------------------|--|---|------------------|-------------------|
| 15th Institute, CETC | Actual controller | Legal person of public institution | Beijing | Li Jianming | Computing technology | 84,851,400 yuan | 37.86% | 37.86% | CETC | 40001129-4 |

Description of parent company

2. Subsidiaries of the Company

| Name of subsidiary | Type | Enterprise type | Registered address | Legal representative | Business nature | Registered capital | Shareholding ratio (%) | Voting power (%) | Organization code |
|---|--------------------|-----------------|--------------------|----------------------|--------------------|--------------------|------------------------|------------------|-------------------|
| Beijing Taiji Network Technology Co., Ltd. | Holding subsidiary | Limited company | Beijing | Liu Huaisong | Information system | 500 | 100% | 100% | 1013692-7 |
| Beijing Taiji Information System Technology Co., Ltd. | Holding subsidiary | Limited company | Beijing | Liu Huaisong | Information system | 5000 | 100% | 100% | 73559791-X |
| Shenzhen Taiji Building Technology Co., Ltd. | Holding subsidiary | Limited company | Shenzhen | Liu Huaisong | Information system | 50 | 80% | 80% | 76755639-7 |
| Taiji Computer (Xi'An) Co., Ltd. | Holding subsidiary | Limited company | Xi'An | Liu Huaisong | Information system | 1000 | 100% | 100% | 58317898-5 |
| Hainan Taiji Information Technology Co., Ltd. | Holding subsidiary | Limited company | Hainan | Liu Huaisong | Information system | 1000 | 100% | 100% | 05635202-1 |
| Beijing Taiji Cloud Computer Technology Development Co., Ltd. | Holding subsidiary | Limited company | Beijing | Liu Huaisong | Information system | 1000 | 100% | 100% | 05928185-5 |
| Beijing Smartdot Technology Co., Ltd. | Holding subsidiary | Limited company | Beijing | Liu Huaisong | Information system | 5100 | 91% | 91% | 63433119-4 |

3. Joint venture and associated enterprise of the Company

| Name of investee | Enterprise type | Registered address | Legal representative | Business nature | Registered capital | Share ratio held by the Company (%) | Voting ratio held by the Company in the investee (%) | Relation | Organization code |
|---|-----------------|--------------------|----------------------|---------------------------|--------------------|-------------------------------------|--|-----------------------|-------------------|
| I. Joint venture Beijing Taiji Ao'Tian Technology Co., Ltd. | Limited company | Beijing | Fan Chenglong | Technological development | 120 million yuan | 50% | 50% | Joint venture | 07171868-5 |
| II. Associated enterprise Beijing Kingbase Information Technologies Inc. | Limited company | Beijing | Hu Aiming | Technological development | 69.50 million | 30.34% | 30.34% | Associated enterprise | 71771210-1 |

4. The Company's other affiliates

| Name of other affiliates | Relation with the Company | Organization code |
|---|--|-------------------|
| 28th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| CETC ACADEMY OF ELECTRONIC SCIENCE | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 34th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 10th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 38th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Beijing Taiji Huaneng Information System Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| CETC Integrated Information Engineering Research Center | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 54TH INSTITUTE, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 13th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 14th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 22nd Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 30th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 36th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |

| Name of other affiliates | Relation with the Company | Organization code |
|--|--|-------------------|
| Beijing Taiji Xianxing Electronic Technology Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Xin'an Huaning Information Technology Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| CETC International Trading Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Beijing Taiji Huabei Property Management Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Beijing Huaxing Taiji Information Technology Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 11th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| CETC Changjiang Data Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| 27th Institute, CETC | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Beijing Zunguan Science & Technology Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Hangzhou Hikvision Digital Technology Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Hebei Far East Harris Communication Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Beijing Taiji Vision Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Shanghai Taiji Huafang Information System Co., Ltd. | Other affiliated enterprises controlled by the same controlling shareholder and final controller | |
| Other affiliates of the Company | | |

5. Related-party transaction

(1) Commodity purchased and service received

Unit: Yuan

| Affiliate | Content of transaction | Pricing method and decision-making procedure | Amount accrued in the period | | Amount accrued in the last period | |
|---|---|--|------------------------------|---|-----------------------------------|---|
| | | | Amount | Percentage of transactions of the same kind (%) | Amount | Percentage of transactions of the same kind (%) |
| Controlling shareholder and final controller: including 15th Institute, CETC | Commodity purchased | Negotiated price | 1,156,538.41 | 0.04% | 1,025,436.75 | 0.04% |
| Joint venture and associated enterprise, including Beijing Kingbase Information Technology Co., Ltd. | | | | | 100,000.00 | 0% |
| Other enterprises controlled by the same controlling shareholder and final controller, including 22nd Institute, CETC | | | | | 2,153,401.57 | 0.09% |
| Beijing Taiji Huabei Property Management Co., Ltd. | Receive labor service | Negotiated price | 6,500.00 | 0% | | |
| Beijing Huaxing Taiji Information Technology Co., Ltd. | Commodity purchased/Receive labor service | Market price/ Negotiated price | 470,679.69 | 0.02% | | |
| Beijing Zunguan Science & Technology Co., Ltd. | Commodity purchased | Negotiated price | 104,339.63 | 0% | | |
| 54 institute, CETC | Commodity purchased | Negotiated price | 558,921.37 | 0.02% | | |
| Other related parties, including Hebei Far East Harris Communication Co., Ltd. | Commodity purchased | Negotiated price | 507,008.56 | 0.02% | 210,000.00 | 0.01% |
| Hangzhou Hikvision Digital Technology Co., Ltd. | Commodity purchased | Negotiated price | 5,473,820.59 | 0.2% | 3,844,739.00 | 0.16% |
| Beijing Huaxing Taiji Information Technology Co., Ltd. | Commodity purchased | Negotiated price | | | 125,395.30 | 0.01% |
| Shanghai Taiji Huafang Information System Co., Ltd. | Commodity purchased | Negotiated price | 17,929,060.30 | 0.64% | 8,359,002.52 | 0.34% |

Commodity purchased and service received

Unit: Yuan

| Affiliate | Content of transaction | Pricing method and decision-making procedure | Amount accrued in the period | | Amount accrued in the last period | |
|---|---|--|------------------------------|--|-----------------------------------|--|
| | | | Amount | Percentage of transactions of the same kind(%) | Amount | Percentage of transactions of the same kind(%) |
| Controlling shareholder and final controller, including 15th Institute, CETC | Sale of commodities/ Provision of labor service | Market price/ Negotiated price | 38,984,893.67 | 1.16% | 70,699,139.72 | 2.45% |
| CETC | Sale of commodities | Market price | 25,915.85 | 0% | 1,061,839.27 | 0.04% |
| Joint venture and other associated enterprise, including Beijing Kingbase Information Technologies Inc. | Sale of commodities/ Provision of labor service | Market price/ Negotiated price | 37,735.85 | 0% | 0.00 | 0% |
| Other enterprises controlled by the same controlling shareholder and final controller, including Beijing Taiji Huabei Property Management Co., Ltd. | Sale of commodities | Market price | 27,423.75 | 0% | 28,891.63 | 0% |
| Electronic Science Research Institute, CETC | Sale of commodities | Market price | 237,932.16 | 0.01% | 820,625.63 | 0.03% |
| 34th Institute, CETC | | | 27,125.33 | 0% | 77,732.23 | 0% |
| 54th Institute, CETC | Sale of commodities | Market price | 67,202.77 | 0% | 1,088,526.64 | 0.04% |
| 28th Institute, CETC | | | 97,607,934.48 | 2.9% | 46,545,087.86 | 1.61% |
| 22nd Institute, CETC | Sale of commodities | Market price | 214,147.90 | 0.01% | 1,402,542.60 | 0.05% |
| 30th Institute, CETC | | | 9,431.52 | 0% | 550,099.45 | 0.02% |
| CETC International Trading Co., Ltd. | | | 854.58 | 0% | 432,791.59 | 0.01% |
| Beijing Zunguan Science & Technology Co., Ltd. | Sale of commodities/ Provision of labor service | Market price/ Negotiated price | 84,905.66 | 0% | 0.00 | 0% |
| Chengdu Westone Co., Ltd. | Sale of commodities | Market price | 591,678.67 | 0.02% | 200,037.57 | 0.01% |
| 10th Institute, CETC | | | 3,302,456.69 | 0.1% | 33,419.02 | 0% |
| Beijing Xin'an Huaning Information Technology Co., Ltd. | Provision of labor service | Negotiated price | | 0% | 110,853.22 | 0% |
| CETC Integrated Information Engineering Research Center | Provision of labor service | Market price | 20,000.00 | 0% | 154,655.17 | 0.01% |
| 11st Institute, CETC | Sale of commodities | Market price | 697,975.94 | 0.02% | 2,582,953.50 | 0.09% |
| 27th Institute, CETC | Sale of commodities | Market price | 3,376,410.28 | 0.1% | 1,206,571.60 | 0.04% |
| 13th Institute, CETC | Sale of commodities | Market price | | | 45,602.02 | 0% |
| 14th Institute, CETC | Sale of commodities/ Provision of labor service | Market price/ Negotiated price | | | 167.83 | 0% |
| Beijing Huaxing Taiji Information Technology Co., Ltd. | Sale of commodities | Market price | 13,517.06 | 0% | 28,645.19 | 0% |
| Hebei Far East Harris Communication Co., Ltd. | | | | | 15,606.95 | 0% |

(2) Related trusteeship/contracting

Related trusteeship/contracting

Unit: Yuan

| Name of client/ contracting-out party | Name of entrusted/ contracting party | Type of entrusted/ contracted asset | Starting date of entrustment/ contracting | Termination date of entrustment reception/ contracting | Pricing basis for trusteeship/ contracting fee | Trusteeship/ contracting revenue recognized in report period |
|---|---|--|---|---|---|--|
| | | | January 1, 2013 | January 1, 2013 | | |

Entrustment/contracting-out:

Unit: Yuan

| Name of client/ contracting-out party | Name of entrusted/ contracting party | Type of entrusted/ contracting- out asset | Starting date of entrustment/ contracting-out | Termination date of entrustment reception/ contracting-out | Pricing basis for trusteeship/ contracting- out fee | Trusteeship/ contracting fee recognized in report period |
|---|---|--|---|---|---|---|
| | | | | | | |

Related trusteeship/contracting:

*(3) Related leasing**Unit: Yuan*

| Name of leaser | Name of lessee | Category of leased asset | Starting date of lease | Ending date of lease | Pricing basis for lease income | Lease income recognized in report period |
|----------------|----------------|-----------------------------|---------------------------|-------------------------|--------------------------------------|--|
| | | | | | | |

Lease by the Company

Unit: Yuan

| Name of leaser | Name of lessee | Category of leased asset | Starting date of lease | Ending date of lease | Pricing basis for lease income | Lease fee recognized in report period |
|----------------------|------------------------------------|--------------------------|------------------------|----------------------|--------------------------------|---------------------------------------|
| 15th Institute, CETC | Taiji Computer Corporation Limited | Operating lease | January 1, 2013 | December 31, 2013 | Negotiation | 6,508,800.00 |

Related lease

(4) Related guarantee*Unit: Yuan*

| Guarantor | Secured party | Amount secured | Starting date of guarantee | Maturity date of guarantee | If guarantee is performed |
|-----------|---------------|----------------|----------------------------|----------------------------|---------------------------|
|-----------|---------------|----------------|----------------------------|----------------------------|---------------------------|

Related guarantee

(5) Inter-associate lending*Unit: Yuan*

| Associate | Amount borrowed | Starting date | Maturity date | Description |
|-----------------------------------|-----------------|---------------|---------------|-------------|
| Loans from other affiliated party | | | | |
| Loan for other affiliated party | | | | |

(6) Asset transfer and debt restructuring of affiliated party*Unit: Yuan*

| Affiliated party | Type of related transaction | Content of related transaction | Pricing principle for related transaction | Amount accrued in the period | | Amount accrued in the last period | |
|------------------|-----------------------------|--------------------------------|---|------------------------------|--|-----------------------------------|--|
| | | | | Amount | Percentage of transaction of same kind (%) | Amount | Percentage of transaction of same kind (%) |

(7) Other related transactions

None

6. Receivables and payables for and from affiliated party

Receivables from affiliated party

Unit: Yuan

| Items | Affiliated party | End of period | | Beginning of period | |
|--------------------------|---|---------------|--------------------|---------------------|--------------------|
| | | Book balance | Bad-debt provision | Book balance | Bad-debt provision |
| Account receivable | 15th Institute, CETC | 10,566,022.52 | 976,129.66 | 16,874,610.50 | 661,569.01 |
| Account receivable | Beijing Taiji Xianxing Electronic Technology Co., Ltd. | 5,000.00 | 5,000.00 | 5,000.00 | 5,000.00 |
| Account receivable | CETC ACADEMY OF ELECTRONIC SCIENCE | 275,708.50 | 1,448.99 | 0.00 | 0.00 |
| Account receivable | 28th Institute, CETC | 19,943,119.41 | 165,240.92 | 5,035,799.63 | 55,984.17 |
| Account receivable | 34th Institute, CETC | 36,944.18 | 2,743.08 | 34,678.91 | 512.64 |
| Account receivable | Beijing Taiji Huabei Property Management Co., Ltd. | 849.06 | | 0.00 | 0.00 |
| Account receivable | 22nd Institute, CETC | 72,951.05 | 1,823.78 | 247,806.28 | 12,390.31 |
| Account receivable | 54TH INSTITUTE, CETC | | | 55,345.70 | 0.00 |
| Account receivable | 11TH INSTITUTE, CETC | 422,786.82 | | 2,151,554.64 | 20,054.06 |
| Account receivable | 10th Institute, CETC | 345,191.75 | | | |
| Account receivable | 27th Institute, CETC | 413,249.19 | 45.76 | | |
| Account receivable | Chengdu Westone Communication Safety Technology Co., Ltd. | 109,409.89 | | | |
| Account receivable | Including: Beijing Huaxing Taiji Information Technology Co., Ltd. | | | 208,742.94 | 9,688.42 |
| Account receivable | Beijing Taiji Ao'Tian Technology Co., Ltd. | 84,000.00 | | | |
| Other account receivable | Including: 15th Institute, CETC | 670,000.00 | 16,750.00 | 0.00 | 0.00 |
| Other account receivable | CETC | | | 100,000.00 | 35,000.00 |
| Other account receivable | Including: 10th Institute, CETC | 20,000.00 | 1,000.00 | 20,000.00 | 500.00 |
| Other account receivable | 22nd Institute, CETC | 150,000.00 | 3,750.00 | 0.00 | 0.00 |
| Other account receivable | Shanghai Taiji Huafang Information System Co., Ltd. | 1,494,525.30 | 1,493,550.30 | 1,493,525.30 | 1,202,946.54 |
| Advance payment | 34th Institute, CETC | 5,947.70 | | 5,947.70 | 0.00 |
| Advance payment | Hangzhou Hikvision Digital Technology Co., Ltd., Beijing Branch | 74,655.00 | | 16,500.00 | 0.00 |

Payables to affiliated party

Unit: Yuan

| Item | Affiliated party | Amount in the end of period | Amount in the beginning of period |
|--------------------------|---|-----------------------------|-----------------------------------|
| Account payable | 15th Institute, CETC | 1,559,586.75 | 119,134.31 |
| Account payable | Beijing Zunguan Science & Technology Co., Ltd. | 78,000.00 | |
| Account payable | 54TH INSTITUTE, CETC | 653,938.00 | |
| Account payable | Chengdu Westone Information Industry Inc | 364,000.00 | 364,000.00 |
| Account payable | Beijing Huaxing Taiji Information Technology Co., Ltd. | 282,354.00 | 0.00 |
| Account payable | Hebei Far East Harris Communication Co., Ltd. | | 266,000.00 |
| Account payable | Hangzhou Hikvision Digital Technology Co., Ltd., Beijing Branch | 1,247,317.00 | 2,662,688.00 |
| Account payable | Shanghai Taiji Huafang Information System Co., Ltd. | 1,449,060.30 | 2,550,000.00 |
| Other payables | 15th Institute, CETC | 1,373,895.64 | 1,194,668.14 |
| Other payables | Including: 22nd Institute, CETC | 50,000.00 | 50,000.00 |
| Other payables | 33rd Institute, CETC | 110,000.00 | |
| Other payables | Beijing Taiji Xianxing Electronic Technology Co., Ltd. | 40.93 | 40.93 |
| Other payables | Beijing Taiji Huaneng Information System Co., Ltd. | 6,552.00 | 6,552.00 |
| Other payables | Shanghai Taiji Huafang Information System Co., Ltd. | 100,000.00 | 0.00 |
| Advance payment received | 15th Institute, CETC | 7,141,880.70 | 4,025,860.08 |
| Advance payment received | CETC | 4,783,018.87 | 525,915.85 |
| Advance payment received | Beijing Kingbase Information Technologies Inc. | 2,264.15 | 40,000.00 |
| Advance payment received | 11th Institute, CETC | 1,420,007.29 | |
| Advance payment received | 30th Institute, CETC | 1,239.32 | 10,670.84 |
| Advance payment received | Beijing Taiji Huaneng Information System Co., Ltd. | 1,782.01 | 1,782.01 |
| Advance payment received | CETC Changjiang Data Co., Ltd. | 16,605.82 | 16,605.82 |
| Advance payment received | 54TH INSTITUTE, CETC | 455,319.38 | 24,861.87 |
| Advance payment received | CETC ACADEMY OF ELECTRONIC SCIENCE | 75,678.89 | 75,754.72 |
| Advance payment received | 28th Institute, CETC | 40,497,301.63 | 32,006,292.87 |
| Advance payment received | 34th Institute, CETC | | 24,860.08 |
| Advance payment received | 22nd Institute, CETC | | 152,906.50 |
| Advance payment received | Beijing Zunguan Science & Technology Co., Ltd. | | 84,905.66 |
| Advance payment received | 27th Institute, CETC | 281,863.48 | 2,417,953.00 |
| Advance payment received | CETC Integrated Information Engineering Research Center | 317,327.17 | 337,327.17 |
| Advance payment received | Shanghai Taiji Huafang Information System Co., Ltd. | 29,792.00 | 29,792.00 |
| Advance payment received | Hebei Far East Harris Communication Co., Ltd. | 496,670.99 | 496,670.99 |
| Advance payment received | Beijing Taiji Huabei Property Co., Ltd. | | 12,423.75 |

X. SHARE-BASED PAYMENT**1. Share-based payment***Unit: Yuan*

| | |
|---|------|
| Total amount of equity instrument awarded by the Company in the period | 0.00 |
| Total amount of equity instrument exercised by the Company in the period | 0.00 |
| Total amount of equity instrument that become invalid in the period | 0.00 |
| Scope of executive price of outstanding stock option issued by the Company in the end of period and remaining contract period | 0 |
| Scope of executive price of other equity instruments issued by the Company in the end of period and remaining contract period | 0 |

Description of share payment

None

2. Equity settled share-based payment*Unit: Yuan*

| | |
|--|--------------------|
| Recognition method for fair value of equity instrument on award date | 0 |
| Recognition method for optimal estimation of executive equity instrument | 0 |
| Reason for significant difference between estimate of the period and last period | 0 |
| Accumulative amount in capital reserve of equity-settled share-based payment | <u>0.00</u> |
| Total amount of equity-settled share-based payment | <u><u>0.00</u></u> |

Description of equity-settled share-based payment

None

3. Cash-settled share-based payment*Unit: Yuan*

| | |
|--|--------------------|
| Recognition method for fair value of liability undertaken by the Company, on the basis of share or other equity instrument | None |
| Accumulative liability generated by Cash-settled share-based payment | <u>0.00</u> |
| Total expense recognized relating to Cash-settled share-based payment | <u><u>0.00</u></u> |

Description of cash-settled share-based payment

None

4. Share-based payment service*Unit: Yuan*

| | |
|---|------|
| Total amount of employee service arising from share-based payment | 0.00 |
| Total amount of other services arising from share-based payment | 0.00 |

5. Revision and termination of share-based payment

None

XI. CONTINGENCY**1. Contingent liability formed by pending action or arbitration and its financial influence**

None

2. Contingent liability arising from provision of debt guarantee for other units and its financial influence

None

XII. COMMITMENT ISSUES**1. Major commitment issues**

None

2. Implementation of commitment in early stage

None

XIII. EVENTS AFTER BALANCE SHEET DATE**1. Important events after balance sheet date***Unit: Yuan*

| Item | Contents | Influence number relating to financial condition and management performance | Reason for failure to estimate influence number |
|-------------|-----------------|--|--|
|-------------|-----------------|--|--|

2. Distribution of profit after balance sheet date*Unit: Yuan***3. Description of other events after balance sheet date****XIV. OTHER IMPORTANT MATTERS****1. Non-monetary asset exchange**

None

2. Debt restructuring

None

3. Business merger

None

4. Lease

1. In accordance with irrevocable house-leasing contract signed between the Company and controlling shareholder 15th Institute, CETC, the minimum lease payment relating to operating lease in remaining lease period is:

| Remaining lease period | Minimum lease payment |
|----------------------------------|------------------------------|
| Within 1 year (including 1 year) | <u>6,508,800.00</u> |
| Total | <u><u>6,508,800.00</u></u> |

2. *Use right to house purchased*

| Name of affiliated party | Name of house purchased | Agreed use period | Remaining period | Total contract value |
|---------------------------------|--------------------------------|--------------------------|-------------------------|-----------------------------|
| 15th Institute, CETC | 12/F, Taiji Building | 30 years | 248 months | 8.50 million |
| 15th Institute, CETC | #2 garage | 10 years | 30 months | 3.73 million |

3. *Payment of comprehensive service fee to parent company*

| Name of affiliated party | Item | Contractual period | Actual payment | Remaining years |
|---------------------------------|---------------------------|---------------------------|-----------------------|------------------------|
| 15th Institute, CETC | Comprehensive service fee | 1 year | 3,669,166.00 | — |

5. Outstanding financial instrument in the end of period that can convert into shares

None

6. Asset and liability recorded at fair value*Unit: Yuan*

| Item | Amount in the beginning of period | Changes in fair value gains and losses in this period | Change of accumulative fair value included into rights and interests | Impairment provision withdrawn in this period | Amount in the end of period |
|--|--|--|---|--|------------------------------------|
| Financial asset | | | | | |
| 1. Financial asset recorded at fair value and its change included into current profit and loss (exclusive of derivative financial asset) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2. Derivative financial asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3. Available-for-sale financial asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Subtotal of financial asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Investment real estate | | 0.00 | 0.00 | 0.00 | |
| Productive biological asset | | 0.00 | 0.00 | 0.00 | |
| Others | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total of above items | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Financial asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

7. Foreign currency asset and liability*Unit: Yuan*

| Item | Amount in the beginning of period | Changes in fair value gains and losses in this period | Change of accumulative fair value included into rights and interests | Impairment provision withdrawn in this period | Amount in the end of period |
|--|--|--|---|--|------------------------------------|
| Financial asset | | | | | |
| 1. Financial asset recorded at fair value and its change included into current profit and loss (exclusive of derivative financial asset) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2. Derivative financial asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3. Loan and receivable | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 4. Available-for-sale financial asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 5. Held-to-maturity investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Subtotal of financial asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Financial liability | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

8. Major contents of pension plan and material change**9. Others**

None

XV. NOTES TO MAJOR ITEMS IN FINANCIAL STATEMENT OF PARENT COMPANY**1. Account receivable***(1) Account receivable**Unit: Yuan*

| Category | Closing balance | | | | Opening balance | | | |
|---|-------------------------|----------------|----------------------|----------------|-----------------------|----------------|----------------------|----------------|
| | Book balance | | Bad-debt provision | | Book balance | | Bad-debt provision | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Account receivable for bad-debt provision based on group withdrawing | | | | | | | | |
| Account age combination | 1,010,135,081.70 | 99.95% | 87,454,868.86 | 8.66% | 839,009,909.40 | 99.97% | 65,662,499.30 | 7.83% |
| Combination of affiliated party | 550,000.00 | 0.05% | | | 217,948.72 | 0.03% | | |
| Combination subtotal | <u>1,010,685,081.70</u> | 100% | <u>87,454,868.86</u> | 8.65% | <u>839,227,858.12</u> | 100% | <u>65,662,499.30</u> | 7.82% |
| Total | <u>1,010,685,081.70</u> | | <u>87,454,868.86</u> | | <u>839,227,858.12</u> | | <u>65,662,499.30</u> | |

Description of account receivable category

Account receivable with significant single-item amount in the end of period and bad-debt provision

Applicable Not applicable

Account receivable in combination with bad-debt provision with account age analysis method

Applicable Not applicable

Unit: Yuan

| Account age | Closing balance | | | Opening balance | | |
|------------------------|-------------------------|----------------|----------------------|-----------------------|----------------|----------------------|
| | Book balance | | Bad-debt provision | Book balance | | Bad-debt provision |
| | Amount | Percentage (%) | | Amount | Percentage (%) | |
| Within 1 year | | | | | | |
| Including: | | | | | | |
| Within 6 months | 511,374,079.11 | 50.62% | | 487,564,626.35 | 58.11% | |
| 7 months-1 year | 165,364,430.77 | 16.37% | 4,134,110.77 | 98,091,750.15 | 11.69% | 2,452,293.75 |
| Within 1 year Subtotal | 676,738,509.88 | 66.99% | 4,134,110.77 | 585,656,376.50 | 69.8% | 2,452,293.75 |
| 1-2 year(s) | 172,838,792.37 | 17.11% | 8,641,939.62 | 119,117,902.38 | 14.2% | 5,955,895.12 |
| 2-3 years | 63,839,486.14 | 6.32% | 9,575,922.92 | 66,664,916.17 | 7.95% | 9,999,737.43 |
| 3-4 years | 42,891,189.87 | 4.25% | 15,011,916.46 | 27,817,869.49 | 3.32% | 9,736,254.32 |
| 4-5 years | 18,680,621.84 | 1.85% | 14,944,497.49 | 11,172,630.88 | 1.33% | 8,938,104.70 |
| Above 5 years | <u>35,146,481.60</u> | 3.48% | <u>35,146,481.60</u> | <u>28,580,213.98</u> | 3.41% | <u>28,580,213.98</u> |
| Total | <u>1,010,135,081.70</u> | | <u>87,454,868.86</u> | <u>839,009,909.40</u> | | <u>65,662,499.30</u> |

Account receivable in combination with bad-debt provision with percentage of balance method.

Applicable Not applicable

Account receivable in combination with bad-debt provision with other methods

Applicable Not applicable

Unit: Yuan

| Combination name | Book balance | Bad-debt provision |
|---------------------------------|-------------------|--------------------|
| Combination of affiliated party | <u>550,000.00</u> | |
| Total | <u>550,000.00</u> | |

Account receivable not with significant single-item amount in the end of period but with single-item bad-debt provision

Applicable Not applicable

(2) *Account receivable reversed or collected in report period*

Unit: Yuan

| Contents of receivables | Reason for reversion or collection | Basis for recognition of original bad-debt provision | Accumulative amount of bad-debt provision before reversion or collection | Amount reversed or collected |
|--------------------------------|---|---|---|-------------------------------------|
|--------------------------------|---|---|---|-------------------------------------|

Bad-debt provision for account receivable with significant single-item amount in the end of period or with not significant amount but subject to impairment test

Unit: Yuan

| Contents of receivables | Book balance | Bad-debt amount | Withdrawing percentage (%) | Reason |
|--------------------------------|---------------------|------------------------|-----------------------------------|---------------|
|--------------------------------|---------------------|------------------------|-----------------------------------|---------------|

Account receivable with not significant single-item amount and combined with credit risk characteristics but the combination has high risk

(3) *Account receivable actually written off in report period*

Unit: Yuan

| Unit name | Nature of account receivable | Write-off time | Amount written off | Reason for write-off | If generated by related transaction |
|------------------|-------------------------------------|-----------------------|---------------------------|-----------------------------|--|
|------------------|-------------------------------------|-----------------------|---------------------------|-----------------------------|--|

Account receivable write-off

None

(4) Shareholders that hold more than 5% (including 5%) of voting shares relating to other receivables in the report period

Unit: Yuan

| Unit name | Closing balance | | Opening balance | |
|----------------------|---------------------|------------------------------|----------------------|------------------------------|
| | Book balance | Amount of bad-debt provision | Book balance | Amount of bad-debt provision |
| 15th Institute, CETC | <u>7,774,273.96</u> | <u>923,973.63</u> | <u>10,425,968.03</u> | <u>628,701.71</u> |
| Total | <u>7,774,273.96</u> | <u>923,973.63</u> | <u>10,425,968.03</u> | <u>628,701.71</u> |

(5) Nature of other account receivables with significant amount

(6) Top 5 units related to account receivable

Unit: Yuan

| Unit name | Relation with the Company | Amount | Years | Percentage accounting for total account receivable (%) |
|--|-------------------------------------|-----------------------|-----------------|--|
| 28th Institute, CETC | Associated party under same control | 19,519,293.47 | Within 3 years | 1.93% |
| Public Security Department of Anhui | Non-affiliate | 23,886,251.22 | Within 2 years | 2.36% |
| Jiangsu Fangyang Group Co., Ltd. | Non-affiliate | 21,655,236.38 | Within 2 years | 2.14% |
| Nanjing Nari Group Information System Integration branch | Non-affiliate | 17,748,373.41 | Within 1 year | 1.76% |
| Postal Savings Bank of China | Non-affiliate | 53,713,273.15 | Within 6 months | 5.31% |
| Total | — | <u>136,522,427.63</u> | — | <u>13.5%</u> |

(7) *Receivable relating to associated party*

Unit: Yuan

| Unit name | Relation with the Company | Amount | Percentage accounting for total account receivable (%) |
|--|---|-----------------------------|---|
| Beijing Taiji Information System Technology Co., Ltd. | Associated party within combination scope | 550,000.00 | 0.05% |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | Joint operation | 84,000.00 | 0.01% |
| Beijing Taiji Xianxing Electronic Technology Co., Ltd. | Associated party under same control | 5,000.00 | 0% |
| CETC ACADEMY OF ELECTRONIC SCIENCE | Associated party under same control | 275,708.50 | 0.03% |
| 15th Institute, CETC | Controlling parent company | 7,774,273.96 | 0.77% |
| 28th Institute, CETC | Associated party under same control | 19,519,293.47 | 1.93% |
| 34th Institute, CETC | Associated party under same control | 36,944.18 | 0% |
| 22nd Institute, CETC | Associated party under same control | 72,951.05 | 0.01% |
| Beijing Taiji Huabei Property Management Co., Ltd. | Associated party under same control | 849.06 | 0% |
| Total | — | <u>28,319,020.22</u> | <u>2.8%</u> |

(8) *Transfer amount of account receivable not compliant with derecognition condition is 0.00 yuan.*

(9) *If asset securitization is performed with receivables as underlying asset, it is necessary to brief relevant transaction arrangement.*

None

2. Other account receivable

(1) Other account receivable

Unit: Yuan

| Category | Closing balance | | | | Opening balance | | | |
|--|-----------------------|----------------|----------------------|----------------|-----------------------|----------------|----------------------|----------------|
| | Book balance | | Bad-debt provision | | Book balance | | Bad-debt provision | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Other account receivable with bad-debt provision on the basis of combination provision | | | | | | | | |
| Combination 1: account age combination | 115,814,993.50 | 90.56% | 22,025,991.50 | 19.01% | 98,115,759.60 | 94.67% | 17,888,248.81 | 18.23% |
| Combination 2: reserve combination | 10,875,629.42 | 8.5% | | | 5,528,566.51 | 5.33% | | |
| Combination 3: Combination of affiliated party | 1,200,000.00 | 0.94% | | | | | | |
| Subtotal of combination | <u>127,890,622.92</u> | <u>100%</u> | <u>22,025,991.50</u> | <u>17.22%</u> | <u>103,644,326.11</u> | <u>100%</u> | <u>17,888,248.81</u> | <u>17.26%</u> |
| Total | <u>127,890,622.92</u> | — | <u>22,025,991.50</u> | — | <u>103,644,326.11</u> | — | <u>17,888,248.81</u> | — |

Description of account receivable category

Account receivable with significant single-item amount in the end of period and bad-debt provision

Applicable Not applicable

Account receivable in combination with bad-debt provision with account age analysis method

Applicable Not applicable

Unit: Yuan

| Account age | Closing balance | | | Opening balance | | |
|-----------------|-----------------------|----------------|----------------------|----------------------|----------------|----------------------|
| | Book balance | | Bad-debt provision | Book balance | | Bad-debt provision |
| | Amount | Percentage (%) | | Amount | Percentage (%) | |
| Within 1 year | | | | | | |
| Including: | — | — | — | — | — | — |
| Within 6 months | 56,637,153.83 | 48.9% | 1,415,928.85 | 14,326,043.32 | 14.6% | 358,151.08 |
| 7 months–1 year | 10,499,591.97 | 9.07% | 262,489.80 | 45,645,923.90 | 46.52% | 1,141,148.10 |
| Within 1 year | | | | | | |
| Subtotal | 67,136,745.80 | 57.97% | 1,678,418.65 | 59,971,967.22 | 61.12% | 1,499,299.18 |
| 1–2 year(s) | 19,733,467.87 | 17.04% | 986,673.40 | 14,140,160.69 | 14.41% | 707,008.03 |
| 2–3 years | 6,150,117.65 | 5.31% | 922,517.65 | 6,028,195.81 | 6.15% | 905,070.50 |
| 3–4 years | 5,722,795.90 | 4.94% | 2,008,973.18 | 3,545,387.20 | 3.61% | 1,240,885.52 |
| 4–5 years | 3,212,288.30 | 2.77% | 2,569,830.64 | 4,470,315.48 | 4.56% | 3,576,252.38 |
| Above 5 years | <u>13,859,577.98</u> | <u>11.97%</u> | <u>13,859,577.98</u> | <u>9,959,733.20</u> | <u>10.15%</u> | <u>9,959,733.20</u> |
| Total | <u>115,814,993.50</u> | — | <u>22,025,991.50</u> | <u>98,115,759.60</u> | — | <u>17,888,248.81</u> |

Other account receivable in combination with bad-debt provision with percentage of balance method

Applicable Not applicable

Other account receivable in combination with bad-debt provision with other methods

Applicable Not applicable

Unit: Yuan

| Combination name | Book balance | Bad-debt provision |
|--|-----------------------------|---------------------------|
| Combination 1: Reserve combination | 10,875,629.42 | |
| Combination 2: Combination of affiliated party | <u>1,200,000.00</u> | |
| Total | <u><u>12,075,629.42</u></u> | |

Other account receivable in the end of period with not significant single-item amount but with single-item bad-debt provision

Applicable Not applicable

(2) *Other account receivables reversed or collected in report period*

Unit: Yuan

| Other account receivable | Reason for reversion or collection | Basis for recognition of original bad-debt provision | Accumulative amount of bad-debt provision before reversion or collection | Amount reversed or collected |
|---------------------------------|---|---|---|-------------------------------------|
| | | | | |

Bad-debt provision for other receivables in the end of period with significant single-item amount or not significant but subject to separate impairment test

Unit: Yuan

| Contents of receivables | Book balance | Bad-debt amount | Provision percentage (%) | Reason |
|--------------------------------|---------------------|------------------------|---------------------------------|---------------|
| | | | | |

Other receivables with not significant single-item amount but with high risk after combination in the light of credit risk characteristics

(3) *Other account receivables written off in report period*

Unit: Yuan

| Unit name | Nature of other account receivable | Write-off time | Write-off amount | Reason for write-off | If generated from related transaction |
|-----------|------------------------------------|----------------|------------------|----------------------|---------------------------------------|
|-----------|------------------------------------|----------------|------------------|----------------------|---------------------------------------|

Write-off of other account receivables

None

(4) *Shareholders that hold more than 5% (including 5%) of voting shares relating to other receivables in the report period*

Unit: Yuan

| Unit name | Closing balance | | Opening balance | |
|----------------------|-------------------------|------------------------------|-----------------|------------------------------|
| | Book balance | Amount of bad-debt provision | Book balance | Amount of bad-debt provision |
| 15th Institute, CETC | <u>70,000.00</u> | <u>1,750.00</u> | | |
| Total | <u><u>70,000.00</u></u> | <u><u>1,750.00</u></u> | | |

(5) *Nature of other account receivables with significant amount*

(6) Top 5 units relating to other account receivable

Unit: Yuan

| Unit name | Relation with the Company | Amount | Year | Percentage accounting for total other receivables (%) |
|--|---------------------------|----------------------|----------------|---|
| Dongcheng Branch, Beijing Municipal Public Security Bureau | Non-affiliate | 3,902,597.80 | Within 1 year | 3.05% |
| Beijing Information Resource Management Center | Non-affiliate | 7,388,440.00 | Within 2 years | 5.78% |
| China Conic Import & Export Co., Ltd. | Non-affiliate | 4,443,603.75 | Above 5 years | 3.47% |
| Zhengzhou Railway Bureau | Non-affiliate | 3,173,062.00 | 1–2 years | 2.48% |
| Shanghai Senior Court | Non-affiliate | 3,688,674.00 | Within 3 years | 2.88% |
| Total | — | <u>22,596,377.55</u> | — | <u>17.66%</u> |

*(7) Account receivable from other affiliates**Unit: Yuan*

| Unit name | Relation with the Company | Amount | Percentage accounting for total other receivables (%) |
|---|---|---------------------|--|
| 15th Institute, CETC | Parent company | 70,000.00 | 0.05% |
| 22nd Institute, CETC | Other enterprises controlled by final controller | 150,000.00 | 0.12% |
| 10th Institute, CETC | Other enterprises controlled by final controller | 20,000.00 | 0.02% |
| Shanghai Taiji Huafang Information System Co., Ltd. | Long-term investment unit | 1,494,525.30 | 1.17% |
| Beijing Taiji Information System Technology Co., Ltd. | Subsidiary | 1,200,000.00 | 0.94% |
| Total | — | <u>2,934,525.30</u> | <u>2.3%</u> |

(8) Transfer amount of other account receivables that fail to conform derecognition condition

(9) If asset securitization is performed with receivables as underlying asset, it is necessary to brief relevant transaction arrangement.

None

3. Long-term equity investment

Unit: Yuan

| Investee | Accounting method | Investment cost | Opening balance | Increase and decrease variation | Closing balance | Share ratio held in investee (%) | Voting ratio in investee(%) | Description of inconsistency between investee share ratio and voting ratio | Provision of impairment | Provision of impairment withdrawn in the period | Cash bonus in the period |
|--|-------------------|-----------------------|-----------------------|---------------------------------|-----------------------|----------------------------------|-----------------------------|--|-------------------------|---|--------------------------|
| Sanxia Hi-Tech Information Technology Co., Ltd. | Cost method | 1,000,000.00 | 1,000,000.00 | | 1,000,000.00 | 10% | 10% | | | | 97,402.65 |
| Beijing Taiji Vision Co., Ltd. | Cost method | 10,000,000.00 | 10,000,000.00 | | 10,000,000.00 | 20% | 20% | | 5,000,000.00 | | |
| Beijing Taiji Network Technology Co., Ltd. | Cost method | 5,000,000.00 | 5,000,000.00 | | 5,000,000.00 | 100% | 100% | | | | |
| Beijing Taiji Information System Technology Co., Ltd. | Cost method | 21,400,000.00 | 50,459,200.00 | | 50,459,200.00 | 100% | 100% | | | | |
| Shenzhen Taiji Building Technology Co., Ltd. | Cost method | 400,000.00 | 400,000.00 | | 400,000.00 | 80% | 80% | | | | |
| Taiji Computer (Xi'an) Co., Ltd. | Cost method | 10,000,000.00 | 10,000,000.00 | | 10,000,000.00 | 100% | 100% | | | | |
| Beijing Taiji Cloud Computation Technology Development Co., Ltd. | Cost method | 10,000,000.00 | 10,000,000.00 | | 10,000,000.00 | 100% | 100% | | | | |
| Hainan Taiji Information Technology Co., Ltd. | Cost method | 10,000,000.00 | 10,000,000.00 | | 10,000,000.00 | 100% | 100% | | | | |
| Shanghai Taiji Huafang Information System Co., Ltd. | Cost method | 220,000.00 | 220,000.00 | | 220,000.00 | 18.33% | 18.33% | | 220,000.00 | | |
| CETC Xi'an Information Industry Development Co., Ltd. | Cost method | 8,000,000.00 | 8,000,000.00 | | 8,000,000.00 | 10% | 10% | | | | |
| Beijing Smartdot Technology Co., Ltd. | Cost method | 490,490,006.16 | | 490,490,006.16 | 490,490,006.16 | 91% | 91% | | | | |
| Beijing Kingbase Information Technology Co., Ltd. | Equity method | 45,000,000.00 | 48,551,784.25 | 1,847,580.73 | 50,399,364.98 | 30.34% | 30.34% | | | | |
| Beijing Taiji Ao'tian Technology Co., Ltd. | Equity method | 60,000,000.00 | | 59,978,481.96 | 59,978,481.96 | 50% | 50% | | | | |
| Total | — | <u>671,510,006.16</u> | <u>153,630,984.25</u> | <u>552,316,068.85</u> | <u>705,947,053.10</u> | — | — | — | <u>5,220,000.00</u> | <u>0.00</u> | <u>97,402.65</u> |

Description of long-term equity investment

4. Operation revenue and business cost

(1) Operation revenue

Unit: Yuan

| Item | Amount accrued in the period | Amount accrued in the last period |
|----------------------|------------------------------|-----------------------------------|
| Main business income | <u>2,793,403,164.65</u> | <u>2,485,090,541.74</u> |
| Total | <u>2,793,403,164.65</u> | <u>2,485,090,541.74</u> |
| Business cost | 2,341,120,092.86 | 2,114,582,165.04 |

(2) Principal business (industry-classified)

Unit: Yuan

| Name of industry | Amount accrued in the period | | Amount accrued in the last period | |
|------------------|------------------------------|-------------------------|-----------------------------------|-------------------------|
| | Operation revenue | Business cost | Operation revenue | Business cost |
| Government | 723,333,563.30 | 571,455,058.36 | 763,272,753.83 | 631,375,893.49 |
| Public utilities | 414,497,485.35 | 342,389,064.61 | 371,941,848.48 | 321,962,765.05 |
| Finance | 459,746,824.26 | 404,257,016.72 | 155,414,701.79 | 120,587,862.65 |
| Energy | 425,678,915.74 | 369,654,227.23 | 492,702,048.88 | 437,226,410.89 |
| Enterprise | 670,350,454.07 | 567,908,687.09 | 584,559,591.83 | 498,251,604.17 |
| Others | <u>99,795,921.93</u> | <u>85,456,038.85</u> | <u>117,199,596.93</u> | <u>105,177,628.79</u> |
| Total | <u>2,793,403,164.65</u> | <u>2,341,120,092.86</u> | <u>2,485,090,541.74</u> | <u>2,114,582,165.04</u> |

(3) Principal business (product-classified)

Unit: Yuan

| Product name | Amount accrued in the period | | Amount accrued in the last period | |
|--------------------------------|------------------------------|-------------------------|-----------------------------------|-------------------------|
| | Operation revenue | Business cost | Operation revenue | Business cost |
| Industry solution and service | 1,894,315,477.36 | 1,555,675,111.23 | 1,585,837,835.36 | 1,331,088,413.33 |
| IT product value-added service | 772,430,282.15 | 728,901,704.97 | 768,256,965.80 | 721,867,313.78 |
| IT consulting | <u>126,657,405.14</u> | <u>56,543,276.66</u> | <u>130,995,740.58</u> | <u>61,626,437.93</u> |
| Total | <u>2,793,403,164.65</u> | <u>2,341,120,092.86</u> | <u>2,485,090,541.74</u> | <u>2,114,582,165.04</u> |

(4) Principal business (district-classified)

Unit: Yuan

| Area name | Amount accrued in the period | | Amount accrued in the last period | |
|-----------------|------------------------------|-------------------------|-----------------------------------|-------------------------|
| | Operation revenue | Business cost | Operation revenue | Business cost |
| Beijing area | 1,178,033,878.41 | 957,133,980.13 | 1,088,096,669.47 | 905,648,820.80 |
| Eastern China | 426,578,101.82 | 352,300,492.12 | 515,774,955.83 | 446,530,680.11 |
| North China | 203,247,152.53 | 172,826,382.34 | 238,979,207.87 | 200,723,570.35 |
| Northwest China | 143,373,024.18 | 129,535,732.48 | 85,462,527.60 | 75,054,584.20 |
| South China | 168,933,652.88 | 145,692,477.97 | 122,958,108.25 | 100,838,176.10 |
| Other regions | <u>673,237,354.83</u> | <u>583,631,027.82</u> | <u>433,819,072.72</u> | <u>385,786,333.48</u> |
| Total | <u>2,793,403,164.65</u> | <u>2,341,120,092.86</u> | <u>2,485,090,541.74</u> | <u>2,114,582,165.04</u> |

*(5) Top five customers' operation revenue**Unit: Yuan*

| Customer name | Total amount of operation revenue | Percentage of operation revenue (%) |
|----------------------|--|--|
| Customer 1 | 110,372,995.06 | 3.95% |
| Customer 2 | 64,938,039.82 | 2.32% |
| Customer 3 | 64,550,546.37 | 2.31% |
| Customer 4 | 58,470,970.30 | 2.09% |
| Customer 5 | 54,265,782.59 | 1.94% |
| Total | <u>352,598,334.14</u> | <u>12.61%</u> |

Description of operation revenue

5. Income from investment*(1) Details of Income from investment**Unit: Yuan*

| Item | Amount accrued in the period | Amount accrued in the last period |
|---|-------------------------------------|--|
| Income from long-term equity investment calculated with cost method | 97,402.65 | 206,847.51 |
| Income from long-term equity investment calculated with equity method | 1,826,062.69 | 1,793,192.78 |
| Investment income from disposal of long-term equity investment | — | 2,373,100.00 |
| Total | <u>1,923,465.34</u> | <u>4,373,140.29</u> |

*(2) Income from long-term equity investment calculated with cost method**Unit: Yuan*

| Investee | Amount accrued in the period | Amount accrued in the last period | Reason for increase and decrease variation of this period in comparison with last period |
|--|---|--|---|
| Sanxia Hi-Tech Information Technology Co., Ltd. | <u>97,402.65</u> | <u>206,847.51</u> | |
| Total | <u><u>97,402.65</u></u> | <u><u>206,847.51</u></u> | — |

*(3) Income from long-term equity investment calculated with equity method**Unit: Yuan*

| Investee | Amount accrued in the period | Amount accrued in the last period | Reason for increase and decrease variation of this period in comparison with last period |
|---|---|--|---|
| Beijing Kingbase Information Technologies Inc. | 1,847,580.73 | 1,793,192.78 | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | <u>(21,518.04)</u> | <u>—</u> | |
| Total | <u><u>1,826,062.69</u></u> | <u><u>1,793,192.78</u></u> | — |

Description of investment equity

6. *Supplementary materials for cash flow statement**Unit: Yuan*

| Supplementary materials | Amount in the period | Balance of the last period |
|--|---------------------------------|---------------------------------------|
| 1. Regulate net profit into operating cash flow: | — | — |
| Net profit | 129,995,107.57 | 99,151,771.38 |
| Add: asset impairment provision | 27,846,546.33 | 19,915,053.60 |
| Depreciation of fixed asset, oil and gas asset and productive biological asset | 4,148,440.81 | 3,630,099.87 |
| Amortization of intangible asset | 11,489,549.01 | 1,235,815.14 |
| Amortization of long-term unamortized expense | 1,177,077.84 | 997,355.21 |
| Loss from disposal of fixed asset, intangible asset and other long-term asset (“()” for gains) | 28,999.90 | 42,727.37 |
| Investment loss (“()” for gains) | (1,923,465.34) | (4,373,140.29) |
| Reduction of deferred income tax asset “()” for gains) | (6,163,364.06) | (2,235,773.95) |
| Reduction of inventory (“()” for gains) | (33,805,664.92) | (34,919,144.32) |
| Reduction of operating receivables (“()” for gains) | (101,285,002.88) | (348,342,942.16) |
| Increase of operating receivables (“()” for reduction) | 326,728,697.90 | 237,588,972.56 |
| Net cash flow generated from operating activity | 358,236,922.16 | (27,309,205.59) |
| 2. Major investment and financing activity not related to cash receipt and payment: | — | — |
| 3. Net change of cash and cash equivalent: | — | — |
| Cash balance in the end of period | 587,356,764.56 | 276,295,276.15 |
| Less: cash balance in the beginning of period | 276,295,276.15 | 774,489,038.16 |
| Net increase of cash and cash equivalent | 311,061,488.41 | (498,193,762.01) |

7. *Assets and liabilities entered into account at evaluation value under the condition of counter purchase*

Assets and liabilities entered into account at fair value under the condition of counter purchase

Unit: Yuan

| Item | Fair value | Fair value recognition method | Fair value calculation process | Original book value |
|-------------|-------------------|--|---|--------------------------------|
|-------------|-------------------|--|---|--------------------------------|

Long-term equity investment formed by counter purchase

Unit: Yuan

| Item | Amount of long-term equity investment formed by counter purchase | Long-term equity investment calculation process |
|------|--|---|
|------|--|---|

XVI. SUPPLEMENTARY MATERIAL

1. Non-recurring profit and loss statement in current period

Unit: Yuan

| Item | Amount | Description |
|--|-----------------------------|-------------|
| Loss and profit from disposal of non-current assets (including the offset part of asset impairment provision) | (33,693.80) | |
| Governmental subsidy included into current profit and loss (with except for governmental subsidy closely related to company business and entitled according to national standard ratio or quota) | 23,457,464.90 | |
| Other non-business revenue and expense | (1,328,094.22) | |
| Less: amount of income tax influence | 2,384,104.29 | |
| Amount of minor shareholders' equity influenced (after tax) | <u>61,631.24</u> | |
| Total | <u><u>19,649,941.35</u></u> | — |

Governmental subsidy included in current profit and loss is recurrent profit and loss items, it is required to specify reason for disclosure recognition.

Applicable Not applicable

| Item | Amount involved (yuan) | Reason |
|--|------------------------------|--------|
| Special funds for Internet of Things Contract Energy Management of Zhongguancun Science and Technology Park Internet of Things | 1,125,000.00 | |
| R&D and application demonstration of NPC functional support system | 550,000.00 | |
| Industrialization of secret-related information system comprehensive management platform | 6,100,000.00 | |
| Special fund for promotion of transformation and industrialization of scientific achievements in Haidian District 2012 | 1,000,000.00 | |
| Critical Technical Research and Demonstration Application of Governmental Affair Information System Based on Cloud Computation | 620,000.00 | |
| Critical technical research and demonstration application of smart Yan'an functional application support platform | 1,000,000.00 | |
| Critical technical research of Internet of Things oriented for urban appearance management | 3,000,000.00 | |
| Critical Technical Research and Demonstration Application of Internet of Things Mass Data Processing and Decision-making Analysis Oriented for Safe Operation and Emergency Management | 4,176,800.00 | |
| Subsidy from Zhongguancun Science and Technology Park | 150,000.00 | |
| Trade mark promotion fund of China Technology Exchange Co., Ltd. | 500,000.00 | |
| R&D subsidy of Beijing Bureau of Quality and Technical Supervision | 150,000.00 | |
| Digital content characteristics Technological breakthrough and application relating to extraction and comparison | 551,172.09 | |
| Nanjing Jiangning support funds | 2,000,000.00 | |
| Total risk management and internal control platform software oriented to energy (power) industry | 600,000.00 | |
| R&D and application of control system oriented for group customer mobile terminal level-to-level administration | 758,138.86 | |
| RFID product R&D and industry application demonstration 121 | 348,708.29 | |
| Special fund for information monitoring and pre-warning platform of Zhongguancun Science and Technology Park | 95,000.00 | |
| R&D and application of emergency guide terminal product | 566,946.00 | |
| R&D of data center virtual resource scheduling oriented for social management and service | 165,699.66 | |

2. Accounting data difference under accounting standard at home and abroad*(1) Difference of net profit and asset disclosed in accordance with international and Chinese accounting standard**Unit: Yuan*

| | Net profit belonging to listed company shareholders | | Net asset belonging to listed company shareholders | |
|--|---|-----------------------|--|------------------|
| | Amount of this period | Amount of last period | Closing balance | Opening balance |
| As per Chinese Accounting Standard | 176,809,800.66 | 132,227,449.04 | 1,857,055,885.74 | 1,153,650,130.92 |
| Items and amount adjusted as per international accounting standard | | | | |

*(2) Difference of net profit and asset disclosed simultaneously in accordance with international and Chinese accounting standard**Unit: Yuan*

| | Net profit belonging to listed company shareholders | | Net asset belonging to listed company shareholders | |
|--|---|-----------------------|--|------------------|
| | Amount of this period | Amount of last period | Closing balance | Opening balance |
| As per Chinese Accounting Standard | 176,809,800.66 | 132,227,449.04 | 1,857,055,885.74 | 1,153,650,130.92 |
| Items and amount adjusted as per international accounting standard | | | | |

(3) Reason for accounting data difference under international and national accounting standard

None

3. Return on equity and earnings per share

Unit: Yuan

| Profit in report period | Weighted average return on equity (%) | Earnings per share | |
|--|---|--------------------|-------------|
| | | Basic EPS | Diluted EPS |
| Net profit owned by ordinary shareholder of the Company | 14.48% | 0.75 | 0.75 |
| Net profit owned by ordinary shareholder of the Company after deduction of non-recurring gains or loss | 12.87% | 0.66 | 0.66 |

4. Description of the abnormality relating to major accounting statement items and reasons

(1) Items of balance sheet

| Item | Year-end balance | Amount in the beginning of year | Change percentage % | Reasons for change |
|-----------------------------|------------------|---------------------------------|---------------------|---|
| Monetary fund | 1,221,745,537.34 | 852,782,523.97 | 43.27 | Private placement is 152 million yuan, net increase of cash flow from operating activity of this year is 389 million yuan. |
| Notes receivable | 51,959,892.07 | 94,358,559.00 | (44.93) | Notes receivable of this period is less than that of last year. |
| Account receivable | 1,140,516,249.62 | 862,799,753.58 | 32.19 | Receivable increase calculated according to contract progress |
| Advance payment | 136,345,455.50 | 577,972,524.23 | (76.41) | Advance payment of 370 million yuan in last year, namely the land payment, is converted into intangible asset — land in this year |
| Interest receivable | 3,618,175.74 | 7,731,855.76 | (53.20) | Fixed-term deposit interest of this year is less than that of last year, namely 57 million yuan. |
| Other account receivable | 140,974,417.13 | 101,460,525.94 | 38.95 | Items have increased this year, the bidding deposit and performance deposit has also increased. |
| Inventory | 112,908,132.65 | 71,312,701.61 | 58.33 | Merchandise inventory purchased has increased in this year |
| Other current asset | 980,935.72 | | | Increase in the period mainly relates to the Input tax to be deducted of Beijing Smartdot Technology Co., Ltd. in the end of year |
| Long-term equity investment | 125,377,846.94 | 63,551,784.25 | 97.28 | Long-term equity investment amounting to 60 million had been increased for Beijing Taiji Ao'tian Technology Co., Ltd., other increase is mainly the investee profit and loss verified with equity method. |

| Item | Year-end balance | Amount in the beginning of year | Change percentage % | Reasons for change |
|------------------------------|------------------|---------------------------------|---------------------|---|
| Construction in process | 5,669,753.24 | 2,365,110.28 | 139.72 | Taiji Cloud Computation Center Base Construction has started in last year and continuous investment would be made in this year |
| Intangible asset | 474,515,055.96 | 16,711,904.85 | 2,739.38 | Land use right amounting to 430 million yuan and software copyright amounting to 36 million yuan is increased in this year. |
| Development expenditure | 7,335,595.36 | 18,375,355.11 | (60.08) | Development expenditure of this period is converted into intangible asset |
| Goodwill | 374,336,612.48 | | | Purchase Beijing Smartdot Technology Co., Ltd. with 490 million yuan, and the net asset at the time of purchase is 116 million yuan. |
| Deferred income tax asset | 24,429,590.45 | 13,415,449.61 | 82.10 | Increased deferred income tax asset mainly comes from increased bad-debt provision, since larger amount of bad-debt provision had been made in the beginning of period by Beijing Smartdot Technology Co., Ltd. |
| Short-term loan | 25,000,000.00 | | | The increase is the amount of credit borrowing made by Beijing Smartdot Technology Co., Ltd. |
| Notes payable | 122,016,661.66 | 72,386,887.49 | 68.56 | Increased notes payable is caused by purchase increase |
| Account payable | 643,649,085.12 | 415,085,005.64 | 55.06 | Increased account payable is caused by purchase increase |
| Account collected in advance | 1,014,410,385.88 | 957,704,876.99 | 5.92 | The increase of account collected in advance is caused by increased projects. |
| Employee pay payable | 12,515,291.99 | 927,797.09 | 1,248.93 | Increased amount comes from employee pay payable at the time of Beijing Smartdot Technology Co., Ltd. acquisition. |
| Other payables | 67,379,148.22 | 41,499,929.05 | 62.36 | Projects have increased, corresponding performance deposit and guarantee deposit has increased |
| Other non-current liability | 20,791,899.75 | 12,465,802.99 | 66.79 | Verify deferred income. The closing balance is the deferred income arising from acquisition of Smartdot and the deferred income of its subsidiaries related to asset |
| Paid-up capital (or equity) | 274,411,744.00 | 237,094,080.00 | 15.74 | Non-public offering 37,317,664 ordinary shares |
| Capital reserve | 1,047,407,103.78 | 515,451,879.22 | 103.20 | Non-public offering 37,317,665 ordinary shares at the price of 15.54 yuan per share |
| Undistributed profit | 478,350,101.66 | 357,216,746.16 | 33.91 | Achieve profitability |
| Minor shareholders' equity | 23,000,939.32 | 195,512.77 | 11,664.42 | Purchase 91% of shares from Smartdot, and minor shareholders' equity has been increased accordingly. |

(2) Items of profit statement and cash flow statement

| Item | Amount in the period | Balance of the last period | Change percentage % | Reason for change |
|--|----------------------|----------------------------|---------------------|---|
| Main business income | 3,366,376,084.61 | 2,888,273,055.17 | 16.55 | Revenue increase is caused by increased project |
| Principal business cost | 2,788,463,318.04 | 2,447,517,149.41 | 13.93 | Cost increase is caused by increased project |
| Administration expense | 322,711,349.03 | 195,202,200.87 | 65.32 | Administration expense is increased because of wage increase, staff number variation, department framework adjustment, some items like the wage and social insurance related to sales expense included into administration expense. In addition, the expansion also causes more administration expenditure. |
| Financial expense | (7,635,441.51) | (12,990,663.86) | 41.22 | Financial expense is increased since the average balance of monetary capital in the year is reduced, causing less interest income. |
| Loss from asset impairment | 30,586,382.33 | 20,381,341.23 | 50.07 | Amount of bad-debt provision is increased, and the inventory impairment provision is also increased. |
| Income from investment | 1,923,465.34 | 1,002,666.77 | 91.83 | Net loss from disposal of long-term equity investment of last year |
| Non-business revenue | 32,230,777.60 | 13,520,144.92 | 138.39 | Amount of governmental subsidy is increased. |
| Non-business expenditure | 1,712,332.97 | 761,063.33 | 124.99 | Cost arising from Smartdot Technology 1.40 million governmental subsidy is included into non-business expenditure |
| Income tax expense | 12,654,624.84 | 18,876,360.57 | (32.96) | Land expense and amortization paid for tax rebate adjustment for key software enterprises |
| Refund of tax and levies | 14,163,241.65 | 2,705,430.91 | 423.51 | Significantly increased in comparison with above period, mainly because of change of consolidation scope, newly increased by 3445342.55 yuan; receive 5% of enterprise income tax of key software enterprises in 2011, namely 5549980.61 yuan. |
| Other cash received relating to business activity | 325,310,841.28 | 209,750,218.69 | 55.09 | Increased in comparison with last year, mainly because of increase of other gains and losses and deposit received is increased. |
| Taxes paid | 127,346,791.80 | 71,483,560.31 | 78.15 | Increased in comparison with last year, mainly because of project settlement, taxes are increased |
| Net cash received from disposal of subsidiary and other business units | | 6,885,767.62 | (100.00) | Decreased in comparison with last year, mainly because the Company had disposed its subsidiary in last year, namely Beijing Taiji Kensijie Information System Consulting Co., Ltd. |

| Item | Amount in the period | Balance of the last period | Change percentage % | Reason for change |
|--|----------------------|----------------------------|---------------------|--|
| Cash paid for purchase of fixed assets, intangible assets and other long-term assets | 54,303,538.30 | 429,454,915.00 | (87.36) | Significantly decreased in comparison with last year, mainly because the Company paid land transfer fee in last year. |
| Cash paid for investment | 60,000,000.00 | 8,900,000.00 | 574.16 | Increased in comparison with last year, mainly because the Company has invested 60 million yuan to Taiji Ao'tian. |
| Net cash paid for acquisition of subsidiary and other business units | 27,914,868.71 | | | Significantly decreased in comparison with last year, mainly because of the acquisition of holding subsidiary, Smartdot Technology Co., Ltd., through merger of enterprises not under same control in the year |
| Cash received for investment | 152,356,382.40 | 1,666,700.00 | 9,041.20 | Significantly decreased in comparison with last year, mainly because of private placement of shares in the year. |
| Cash for dividend and profit distribution or interest paid | 42,132,039.10 | 28,165,590.39 | 49.59 | Significantly decreased in comparison with last year, mainly because dividend distributed has significantly increased in comparison with last year. |

The following is the English translation of an extract of the audited consolidated financial statements of the Taiji Computer Group prepared in accordance with ASBE and the disclosure requirements in the “Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting” issued by CSRC for the year ended 31 December 2014, together with the accompanying notes (the “**2014 TC Financial Statements**”), which are included on pages 78 to 222 in the annual report for the year of 2014 of Taiji Computer (the “**2014 TC Annual Report**”) published on 28 March 2015.

I. AUDIT REPORT

| | |
|----------------------------------|---|
| Type of audit opinion | Standard unqualified opinion |
| Audit report signed on | March 26, 2015 |
| Audit institution name | Union Power CPAs Co., Ltd. (Special general partnership) |
| Audit report reference number | ZHSZ (2015) No. 020382 |
| Certified Public Accountant name | Wu Yuguang and Qu Jinhui |

AUDIT REPORT**Taiji Computer Corporation Limited:**

We have audited the following financial statements of Taiji Computer Corporation Limited, including the consolidated balance sheet as of December 31, 2014, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in owner's equity of 2014, consolidated statement of provision for asset impairment as of December 31, 2014 and notes to financial statements.

I. Management's Responsibility for Financial Statements

The management of Taiji Computer Corporation Limited is responsible for the preparation and fair report of the financial statements. This responsibility includes: (1) preparing financial statements in accordance with the Accounting Standards for Business Enterprises so that such financial statement fairly present the Company's financial position; (2) designing, implementing and maintaining the necessary internal control that are free from material misstatement, whether due to fraud or error.

II. CPA's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with provisions under China CPA Standards on Auditing. China CPA Standards on Auditing require that we comply with professional code of ethics, plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing auditing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The auditing procedures selected depend on the CPA's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making the risk assessments, we consider the internal control relevant to the preparation of the financial statements in order to design the appropriate auditing procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

III. Audit Opinion

In our opinion, the financial statements of Taiji Computer Corporation Limited have been prepared in accordance with the provisions under Accounting Standards for Business Enterprises, and fairly reflected the Company's financial position as of December 31, 2014 after the consolidation as well as the operating results and cash flows in 2014 after the consolidation.

Union Power CPAs Co., Ltd. (Special general partnership)

Wu Yuguang
China Certified Public Accountant

Qu Jinhui
China Certified Public Accountant

China • Beijing

March 26, 2015

II. FINANCIAL STATEMENT

The unit of the statement in financial annotation is: RMB yuan

1. Consolidated Balance Sheet

Compilation company: Taiji Computer Corporation Limited

December 31, 2014

Unit: Yuan

| Item | Closing balance | Opening balance |
|---|--------------------------------|--------------------------------|
| Current Assets: | | |
| Monetary Capital | 992,039,797.49 | 1,221,745,537.34 |
| Settlement reserve | 0.00 | 0.00 |
| Lending funds | 0.00 | 0.00 |
| Financial Assets Measured at Fair Value and Changes Recorded into Current Period Profit or Loss | 0.00 | 0.00 |
| Financial derivative | 0.00 | 0.00 |
| Notes Receivable | 56,961,607.46 | 51,959,892.07 |
| Accounts Receivable | 1,489,756,053.34 | 1,140,516,249.62 |
| Advance Payment | 195,991,257.36 | 136,345,455.50 |
| Premium receivable | 0.00 | 0.00 |
| Account receivable reinsurance | 0.00 | 0.00 |
| Accounts receivable reinsurance reserve | 0.00 | 0.00 |
| Interests Receivable | 7,034,544.96 | 3,618,175.74 |
| Dividends Receivable | 0.00 | 0.00 |
| Other Receivables | 166,949,095.39 | 140,974,417.13 |
| Redemptory monetary capital for sale | 0.00 | 0.00 |
| Inventories | 103,189,910.68 | 112,908,132.65 |
| Assets classified as held for sale | 0.00 | 0.00 |
| Non-current Assets Due within 1 Year | 0.00 | 0.00 |
| Other Current Assets | <u>4,031,734.24</u> | <u>4,063,963.31</u> |
| Total Current Assets | <u><u>3,015,954,000.92</u></u> | <u><u>2,812,131,823.36</u></u> |

| Item | Closing balance | Opening balance |
|-------------------------------------|--------------------------------|--------------------------------|
| Non-current Assets: | | |
| Loans and payments on behalf | 0.00 | 0.00 |
| Financial Assets Available for Sale | 15,000,000.00 | 15,000,000.00 |
| Investment Held to Maturity | 0.00 | 0.00 |
| Long-term Receivables | 0.00 | 0.00 |
| Long-term Equity Investment | 112,771,391.45 | 110,377,846.94 |
| Investment Properties | 0.00 | 0.00 |
| Fixed assets | 32,114,318.39 | 28,691,537.40 |
| Construction in Progress | 17,535,085.09 | 5,669,753.24 |
| Construction Materials | 0.00 | 0.00 |
| Disposal of Fixed Assets | 0.00 | 0.00 |
| Productive Biological Assets | 0.00 | 0.00 |
| Oil and Gas Assets | 0.00 | 0.00 |
| Intangible Assets | 521,155,780.25 | 474,515,055.96 |
| Development Expenditures | 29,242,815.62 | 7,335,595.36 |
| Goodwill | 374,336,612.48 | 374,336,612.48 |
| Long-term Deferred Expenses | 10,194,017.18 | 12,148,691.86 |
| Deferred Income Tax Assets | 30,617,686.96 | 24,429,590.45 |
| Other Non-current Assets | 0.00 | 0.00 |
| Total Non-current Assets | <u>1,142,967,707.42</u> | <u>1,052,504,683.69</u> |
| Total Assets | <u><u>4,158,921,708.34</u></u> | <u><u>3,864,636,507.05</u></u> |

| Item | Closing balance | Opening balance |
|--|--------------------------------|--------------------------------|
| Current Liabilities | | |
| Short-term Borrowings | 35,000,000.00 | 25,000,000.00 |
| Borrowings from central bank | 0.00 | 0.00 |
| Deposit taking and deposit taking of interbank | 0.00 | 0.00 |
| Borrowed funds | 0.00 | 0.00 |
| Financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period | 0.00 | 0.00 |
| Derivative financial liabilities | 0.00 | 0.00 |
| Notes Payable | 50,894,773.85 | 122,016,661.66 |
| Accounts Payable | 756,364,565.20 | 643,649,085.12 |
| Advance Receipt | 1,087,619,181.99 | 1,014,410,385.88 |
| Financial assets sold for repurchase | 0.00 | 0.00 |
| Fee and commission payable | 0.00 | 0.00 |
| Salary payable | 13,575,229.21 | 12,515,291.99 |
| Tax payable | 93,723,780.46 | 78,471,179.09 |
| Interests Payable | 0.00 | 0.00 |
| Dividends Payable | 2,097,812.00 | 0.00 |
| Other Payables | 69,489,623.26 | 67,379,148.22 |
| Dividend payable for reinsurance | 0.00 | 0.00 |
| Reserve fund for insurance contracts | 0.00 | 0.00 |
| Securities vicariously traded | 0.00 | 0.00 |
| Securities vicariously sold | 0.00 | 0.00 |
| Liabilities classified as held for sale | 0.00 | 0.00 |
| Non-current Liabilities Due within 1 Year | 0.00 | 0.00 |
| Other Current Liabilities | <u>0.00</u> | <u>0.00</u> |
| Total Current Liabilities | <u><u>2,108,764,965.97</u></u> | <u><u>1,963,441,751.96</u></u> |
| Non-current Liabilities: | | |
| Long-term Borrowings | 0.00 | 0.00 |
| Bonds Payable | 0.00 | 0.00 |
| Among: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Long-term Payables | 0.00 | 0.00 |
| Long-term employee remunerations payable | 0.00 | 0.00 |
| Special Payables | 0.00 | 0.00 |
| Estimated Liabilities | 0.00 | 0.00 |
| Deferred income | 24,794,199.12 | 20,791,899.75 |
| Deferred Income Tax Liabilities | 276,824.22 | 346,030.28 |
| Other Non-current Liabilities | 0.00 | 0.00 |
| Total Non-current Liabilities | <u>25,071,023.34</u> | <u>21,137,930.03</u> |
| Total Liabilities | <u><u>2,133,835,989.31</u></u> | <u><u>1,984,579,681.99</u></u> |

| Item | Closing balance | Opening balance |
|--|------------------------------------|------------------------------------|
| Shareholder's Equity | | |
| Share Capital | 274,411,744.00 | 274,411,744.00 |
| Other equity instruments | 0.00 | 0.00 |
| Among: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Capital Reserves | 1,047,407,103.78 | 1,047,407,103.78 |
| Less: treasury share | 0.00 | 0.00 |
| Other comprehensive income | 0.00 | 0.00 |
| Special Reserves | 0.00 | 0.00 |
| Surplus Reserves | 69,474,146.20 | 56,886,936.30 |
| General risk provision | 0.00 | 0.00 |
| Undistributed Profits | <u>606,596,048.30</u> | <u>478,350,101.66</u> |
| Total Owner's Equity Attributable to Parent Company | <u><u>1,997,889,042.28</u></u> | <u><u>1,857,055,885.74</u></u> |
| Minority Shareholder's Equity | <u>27,196,676.75</u> | <u>23,000,939.32</u> |
| Total Owner's Equity | <u>2,025,085,719.03</u> | <u>1,880,056,825.06</u> |
| Total Liabilities and Owner's Equity | <u><u>4,158,921,708.34</u></u> | <u><u>3,864,636,507.05</u></u> |

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
*Supervisor of
Accounting Office*

2. Parent Company Balance Sheet*Unit: Yuan*

| Item | Closing balance | Opening balance |
|---|--------------------------------|--------------------------------|
| Current Assets: | | |
| Monetary Capital | 527,901,033.08 | 752,824,472.84 |
| Financial Assets Measured at Fair Value and Changes Recorded into Current Period Profit or Loss | 0.00 | 0.00 |
| Financial derivative | 0.00 | 0.00 |
| Notes Receivable | 53,490,221.61 | 43,984,904.65 |
| Accounts Receivable | 1,153,302,653.58 | 923,230,212.84 |
| Advance Payment | 171,306,056.67 | 103,801,932.25 |
| Interests Receivable | 7,034,544.96 | 3,618,175.74 |
| Dividends Receivable | 0.00 | 0.00 |
| Other Receivables | 190,385,427.07 | 105,864,631.42 |
| Inventories | 87,872,423.35 | 101,967,213.49 |
| Assets classified as held for sale | 0.00 | 0.00 |
| Non-current Assets Due within 1 Year | 0.00 | 0.00 |
| Other Current Assets | <u>3,996,170.71</u> | <u>3,083,027.59</u> |
| Total Current Assets | <u><u>2,195,288,531.03</u></u> | <u><u>2,038,374,570.82</u></u> |

| Item | Closing balance | Opening balance |
|--|------------------------------------|------------------------------------|
| Non-current Assets: | | |
| Financial Assets Available for Sale | 14,000,000.00 | 14,000,000.00 |
| Investment Held to Maturity | 0.00 | 0.00 |
| Long-term Receivables | 0.00 | 0.00 |
| Long-term Equity Investment | 689,120,597.61 | 686,727,053.10 |
| Investment Properties | 0.00 | 0.00 |
| Fixed assets | 16,877,723.64 | 18,722,072.84 |
| Construction in Progress | 9,096,601.48 | 2,616,934.60 |
| Construction Materials | 0.00 | 0.00 |
| Disposal of Fixed Assets | 0.00 | 0.00 |
| Productive Biological Assets | 0.00 | 0.00 |
| Oil and Gas Assets | 0.00 | 0.00 |
| Intangible Assets | 465,773,351.22 | 464,916,052.21 |
| Development Expenditures | 6,633,888.16 | 1,807,809.22 |
| Goodwill | 0.00 | 0.00 |
| Long-term Deferred Expenses | 8,966,312.44 | 10,113,407.09 |
| Deferred Income Tax Assets | 25,277,301.38 | 19,037,741.15 |
| Other Non-current Assets | 0.00 | 0.00 |
| Total Non-current Assets | <u>1,235,745,775.93</u> | <u>1,217,941,070.21</u> |
| Total Assets | <u><u>3,431,034,306.96</u></u> | <u><u>3,256,315,641.03</u></u> |
| Current Liabilities | | |
| Short-term Borrowings | 0.00 | 0.00 |
| Financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period | 0.00 | 0.00 |
| Derivative financial liabilities | 0.00 | 0.00 |
| Notes Payable | 39,472,939.53 | 113,720,580.66 |
| Accounts Payable | 628,758,928.05 | 552,995,778.42 |
| Advance Receipt | 821,518,364.46 | 751,861,748.36 |
| Salary payable | 181,331.46 | 1,767,131.46 |
| Tax payable | 79,510,264.42 | 60,294,494.48 |
| Interests Payable | 0.00 | 0.00 |
| Dividends Payable | 2,097,812.00 | 0.00 |
| Other Payables | 75,325,656.25 | 70,476,052.03 |
| Liabilities classified as held for sale | 0.00 | 0.00 |
| Non-current Liabilities Due within 1 Year | 0.00 | 0.00 |
| Other Current Liabilities | <u>0.00</u> | <u>0.00</u> |
| Total Current Liabilities | <u><u>1,646,865,296.17</u></u> | <u><u>1,551,115,785.41</u></u> |

| Item | Closing balance | Opening balance |
|--|------------------------------------|------------------------------------|
| Non-current Liabilities: | | |
| Long-term Borrowings | 0.00 | 0.00 |
| Bonds Payable | 0.00 | 0.00 |
| Among: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Long-term Payables | 0.00 | 0.00 |
| Long-term employee remunerations payable | 0.00 | 0.00 |
| Special Payables | 0.00 | 0.00 |
| Estimated Liabilities | 0.00 | 0.00 |
| Deferred income | 12,967,053.98 | 4,987,649.04 |
| Deferred Income Tax Liabilities | 0.00 | 0.00 |
| Other Non-current Liabilities | 0.00 | 0.00 |
| Total Non-current Liabilities | <u>12,967,053.98</u> | <u>4,987,649.04</u> |
| Total Liabilities | <u><u>1,659,832,350.15</u></u> | <u><u>1,556,103,434.45</u></u> |
| Shareholder's Equity | | |
| Share Capital | 274,411,744.00 | 274,411,744.00 |
| Other equity instruments | 0.00 | 0.00 |
| Among: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Capital Reserves | 1,046,913,785.13 | 1,046,913,785.13 |
| Less: treasury share | 0.00 | 0.00 |
| Other comprehensive income | 0.00 | 0.00 |
| Special Reserves | 0.00 | 0.00 |
| Surplus Reserves | 69,474,146.20 | 56,886,936.30 |
| Undistributed Profits | <u>380,402,281.48</u> | <u>321,999,741.15</u> |
| Total Owner's Equity | <u><u>1,771,201,956.81</u></u> | <u><u>1,700,212,206.58</u></u> |
| Total Liabilities and Owner's Equity | <u><u>3,431,034,306.96</u></u> | <u><u>3,256,315,641.03</u></u> |

3. Consolidated Income Statement

Unit: Yuan

| Item | Current period incurred amount | Prior period incurred amount |
|---|-----------------------------------|---------------------------------|
| I. Total Operating Incomes | 4,255,622,147.28 | 3,366,376,084.61 |
| Among: operating incomes | 4,255,622,147.28 | 3,366,376,084.61 |
| Interest income | 0.00 | 0.00 |
| Earned premium | 0.00 | 0.00 |
| Fee and commission income | 0.00 | 0.00 |
| II. Total Operating Costs | 4,077,222,461.43 | 3,206,196,617.25 |
| Among: operating cost | 3,552,336,013.70 | 2,788,463,318.04 |
| Interest cost | 0.00 | 0.00 |
| Service charge and commission fee | 0.00 | 0.00 |
| Surrender value | 0.00 | 0.00 |
| Net payment for insurance claims | 0.00 | 0.00 |
| Net cost on preparation fund of insurance contract | 0.00 | 0.00 |
| Bond insurance expense | 0.00 | 0.00 |
| Amortized reinsurance expenditures | 0.00 | 0.00 |
| Income Tax and Surcharges | 24,526,369.65 | 26,710,539.89 |
| Marketing expenses | 67,818,308.79 | 45,360,469.47 |
| Management expenses | 405,131,552.43 | 322,711,349.03 |
| Financial expenses | (959,570.47) | (7,635,441.51) |
| Asset impairment losses | 28,369,787.33 | 30,586,382.33 |
| Add: Net Income from Changes in Fair Value (loss is presented by “()”) | 0.00 | 0.00 |
| Investment Income (loss is presented by “()”) | 2,096,792.19 | 1,923,465.34 |
| Among: Income from Investment in Associated Enterprises and Joint Ventures | 1,993,544.51 | 1,826,062.69 |
| Exchange income (loss is presented by “()”) | 0.00 | 0.00 |
| III. Operating Profits (loss is presented by “()”) | 180,496,478.04 | 162,102,932.70 |
| Add: Non-operating Income | 38,227,289.96 | 32,230,777.60 |
| Among: profit from disposal of non-current asset | 9,281.40 | 527.60 |
| Less: Non-operating Costs | 385,761.42 | 1,712,332.97 |
| Among: Losses on Disposal of Non-current asset | 93,796.81 | 34,221.40 |

| Item | Current period incurred amount | Prior period incurred amount |
|---|-----------------------------------|---------------------------------|
| IV. Total Profits (total losses are presented by “()”) | 218,338,006.58 | 192,621,377.33 |
| Less: Income Tax Expenses | 20,147,474.31 | 12,654,624.84 |
| V. Net Profits (net losses are presented by “()”) | 198,190,532.27 | 179,966,752.49 |
| Total Owner’s Equity Attributable to Parent Company | 195,715,505.34 | 176,809,800.66 |
| Minority Shareholder’s Equity | 2,475,026.93 | 3,156,951.83 |
| VI. Other Comprehensive Earning | 0.00 | 0.00 |
| After-tax net amount of other comprehensive income which belongs to the parent company owner | 0.00 | 0.00 |
| (I) Other comprehensive income cannot reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Remeasure the variation of net indebtedness or net asset of defined benefit plans | 0.00 | 0.00 |
| 2. Share in other comprehensive income that cannot be classified into profit and loss under equity method | 0.00 | 0.00 |
| (II) Other comprehensive income that will be reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Share in other comprehensive income that will be classified into profit and loss under equity method | 0.00 | 0.00 |
| 2. Changes in fair value through profit and loss of available-for-sale financial assets | 0.00 | 0.00 |
| 3. Held-to-maturity investment reclassified into available-for sale financial assets | 0.00 | 0.00 |
| 4. Effective part of cash-flow hedge profit and loss | 0.00 | 0.00 |
| 5. Balance arising from the translation of foreign currency financial statements | 0.00 | 0.00 |
| 6. Other | 0.00 | 0.00 |
| Total comprehensive income attributed to parent company owners | 0.00 | 0.00 |

| Item | Current period incurred amount | Prior period incurred amount |
|---|---|---|
| VII. Total Comprehensive Earnings | 198,190,532.27 | 179,966,752.49 |
| Total Owner's Comprehensive Earnings | | |
| Attributable to Parent Company | 195,715,505.34 | 176,809,800.66 |
| Minority Shareholder's Comprehensive Earnings | 2,475,026.93 | 3,156,951.83 |
| VIII. Earnings per Share: | | |
| (I) Basic Earnings per Share | 0.71 | 0.75 |
| (II) Diluted Earnings per Share | 0.71 | 0.75 |

If business merger under the same control occurs in current period, the realized net profit of the merged party prior to the merging was: yuan; the merged party realized net profit of prior period was: yuan.

Li Jianming
Corporation Manager

Tu Sunhong
Chief Accountant

Zhong Yan
*Supervisor of
Accounting Office*

4. Parent Company Income Statement

Unit: Yuan

| Item | Current period incurred amount | Prior period incurred amount |
|---|-----------------------------------|---------------------------------|
| I. Operating incomes | 3,475,787,601.44 | 2,793,403,164.65 |
| Less: operating cost | 3,011,819,325.10 | 2,341,120,092.86 |
| Income Tax and Surcharges | 21,277,784.89 | 23,975,425.43 |
| Marketing expenses | 37,805,943.72 | 37,943,616.75 |
| Management expenses | 260,968,411.44 | 249,921,208.23 |
| Financial expenses | (1,720,077.22) | (7,316,970.37) |
| Asset impairment losses | 28,751,788.90 | 27,846,546.33 |
| Add: Net Income from Changes in Fair Value (loss is presented by “()”) | 0.00 | 0.00 |
| Investment Income (loss is presented by “()”) | 2,096,792.19 | 1,923,465.34 |
| Among: Income from Investment in Associated Enterprises and Joint Ventures | 1,993,544.51 | 1,826,062.69 |
| II. Operating Profits (loss is presented by “()”) | 118,981,216.80 | 121,836,710.76 |
| Add: Non-operating Income | 19,073,184.91 | 15,788,115.75 |
| Among: profit from disposal of non-current asset | 0.00 | 0.00 |
| Less: Non-operating Costs | 339,096.56 | 279,527.50 |
| Among: Losses on Disposal of Non-current asset | 49,096.56 | 29,527.50 |
| III. Total Profits (total losses are presented by “()”) | 137,715,305.15 | 137,345,299.01 |
| Less: Income Tax Expenses | 11,843,206.12 | 7,350,191.44 |
| IV. Net Profits (net losses are presented by “()”) | 125,872,099.03 | 129,995,107.57 |

| Item | Current period incurred amount | Prior period incurred amount |
|---|-----------------------------------|---------------------------------|
| V. Other Comprehensive Earning | 0.00 | 0.00 |
| (I) Other comprehensive income cannot reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Remeasure the variation of net indebtedness or net asset of defined benefit plans | 0.00 | 0.00 |
| 2. Share in other comprehensive income that cannot be classified into profit and loss under equity method | 0.00 | 0.00 |
| (II) Other comprehensive income that will be reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Share in other comprehensive income that will be classified into profit and loss under equity method | 0.00 | 0.00 |
| 2. Changes in fair value through profit and loss of available-for-sale financial assets | 0.00 | 0.00 |
| 3. Held-to-maturity investment reclassified into available-for sale financial assets | 0.00 | 0.00 |
| 4. Effective part of cash-flow hedge profit and loss | 0.00 | 0.00 |
| 5. Balance arising from the translation of foreign currency financial statements | 0.00 | 0.00 |
| 6. Other | 0.00 | 0.00 |
| VI. Total Comprehensive Earnings | 125,872,099.03 | 129,995,107.57 |
| VII. Earnings per Share: | | |
| (I) Basic Earnings per Share | 0.46 | 0.47 |
| (II) Diluted Earnings per Share | 0.46 | 0.47 |

5. Consolidated Cash Flow Statement

Unit: Yuan

| Items | Current period incurred amount | Prior period incurred amount |
|---|-----------------------------------|---------------------------------|
| I. Cash Flows from Operating Activities | | |
| Cash received from Sale of Goods or Rendering of Services | 4,486,058,365.81 | 3,636,854,803.15 |
| Net increase from clients' deposit and deposit from other banks | 0.00 | 0.00 |
| Net increase in borrowings from central bank | 0.00 | 0.00 |
| Net increase in borrowings from other financial institutions | 0.00 | 0.00 |
| Cash of premium collected from the original insurance contract | 0.00 | 0.00 |
| Net cash of reinsurance business collected | 0.00 | 0.00 |
| Net increase from deposit of insured and investment | 0.00 | 0.00 |
| Handling is measured by fair value and its variation is included in financial asset net increase amount of current profits and losses | 0.00 | 0.00 |
| Cash received from collecting interest, handling charges and commissions | 0.00 | 0.00 |
| Net increase in borrowings from other banks | 0.00 | 0.00 |
| Net increase in buy-back business | 0.00 | 0.00 |
| Refund of Taxes Received | 12,194,296.91 | 14,163,241.65 |
| Other Cash Received relating to Operating Activities | <u>347,660,611.77</u> | <u>325,310,841.28</u> |
| Sub-total of Cash Inflows from Operating Activities | <u><u>4,845,913,274.49</u></u> | <u><u>3,976,328,886.08</u></u> |
| Cash Paid for Goods and Services | 3,851,209,183.57 | 2,752,695,150.63 |
| Net increase in clients' loan and advance in cash | 0.00 | 0.00 |
| Net increase from deposits in the central bank and other banks | 0.00 | 0.00 |
| Cash paid for compensation of the original insurance contract | 0.00 | 0.00 |
| Cash paid for interest, handling charges and commissions | 0.00 | 0.00 |
| Cash paid for policy dividend | 0.00 | 0.00 |
| Cash Paid to and on Behalf of Employees | 406,510,770.80 | 284,939,695.50 |
| Payments of All Types of Taxes | 134,554,251.68 | 127,346,791.80 |
| Other Cash Paid relating to Operating Activities | <u>470,545,551.62</u> | <u>422,037,422.13</u> |
| Sub-total of Cash Outflows from Operating Activities | <u><u>4,862,819,757.67</u></u> | <u><u>3,587,019,060.06</u></u> |
| Net cash flows from operating activities | <u><u>(16,906,483.18)</u></u> | <u><u>389,309,826.02</u></u> |

| Items | Current period incurred amount | Prior period incurred amount |
|--|-----------------------------------|---------------------------------|
| II. Cash Flows from Investing Activities | | |
| Cash received from recovery of investments | 0.00 | 0.00 |
| Cash received from returns on investments | 103,247.68 | 97,402.65 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 218,555.90 | 13,200.00 |
| Net cash received from disposal of subsidiaries and other business entities | 0.00 | 0.00 |
| Other cash received relating to investing activities | 0.00 | 0.00 |
| Sub-total of cash inflows from Operating Activities | 321,803.58 | 110,602.65 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 131,172,683.15 | 54,303,538.30 |
| Cash paid to acquire investments | 8,791,756.87 | 60,000,000.00 |
| Net increase from hypothecated loan | 0.00 | 0.00 |
| Cash paid to acquire subsidiaries and other business entities | 0.00 | 27,914,868.71 |
| Other cash payments relating to investing activities | <u>0.00</u> | <u>0.00</u> |
| Sub-total of cash outflows from Investing Activities | <u>139,964,440.02</u> | <u>142,218,407.01</u> |
| Net cash flows from investing activities | (139,642,636.44) | (142,107,804.36) |

| Items | Current period incurred amount | Prior period incurred amount |
|---|-----------------------------------|---------------------------------|
| III. Cash Flows from Financing Activities | | |
| Cash received from capital contribution | 2,000,000.00 | 152,356,382.40 |
| Among: Cash Received by Subsidiaries from Capital Contribution of Minority Shareholders | 2,000,000.00 | 0.00 |
| Cash received from borrowings | 353,000,000.00 | 0.00 |
| Cash received from bonds issuing | 0.00 | 0.00 |
| Other cash received relating to financing activities | 0.00 | 0.00 |
| Sub-total of Cash Inflows from Financing Activities | 355,000,000.00 | 152,356,382.40 |
| Cash repayments of amounts borrowed | 343,000,000.00 | 0.00 |
| Cash payments for interest expenses and distribution of dividends or profits | 58,904,022.44 | 42,132,039.10 |
| Among: dividend profits paid by subsidiary to minority shareholders | 0.00 | 0.00 |
| Other cash payments relating to financing activities | 0.00 | 0.00 |
| Sub-total of cash outflows from Operating Activities | <u>401,904,022.44</u> | <u>42,132,039.10</u> |
| Net cash flows from financing activities | <u>(46,904,022.44)</u> | <u>110,224,343.30</u> |
| IV. Effect of Foreign Exchange Rate Changes on Cash | 0.00 | 0.00 |
| V. Net Increase in Cash and Cash Equivalents | <u>(203,453,142.06)</u> | <u>357,426,364.96</u> |
| Add: Opening Balance of Cash and Cash Equivalents of the Period | <u>1,054,299,917.24</u> | <u>696,873,552.28</u> |
| VI. Closing Balance of Cash and Cash Equivalents of the Period | <u>850,846,775.18</u> | <u>1,054,299,917.24</u> |

6. Parent Company Cash Flow Statement

Unit: Yuan

| Item | Current period incurred amount | Prior period incurred amount |
|--|-----------------------------------|---------------------------------|
| I. Cash Flows from Operating Activities | | |
| Cash received from Sale of Goods or Rendering of Services | 3,740,004,493.81 | 3,039,207,914.91 |
| Refund of Taxes Received | 263,589.85 | 8,027,812.82 |
| Other Cash Received relating to Operating Activities | 668,384,568.72 | 562,422,478.13 |
| Sub-total of Cash Inflows from Operating Activities | 4,408,652,652.38 | 3,609,658,205.86 |
| Cash Paid for Goods and Services | 3,355,501,926.28 | 2,254,627,011.89 |
| Cash Paid to and on Behalf of Employees | 245,415,290.72 | 229,670,708.43 |
| Payments of All Types of Taxes | 96,315,930.29 | 93,903,793.85 |
| Other Cash Paid relating to Operating Activities | <u>787,875,715.25</u> | <u>673,219,769.53</u> |
| Sub-total of Cash Outflows from Operating Activities | <u>4,485,108,862.54</u> | <u>3,251,421,283.70</u> |
| Net cash flows from operating activities | <u>(76,456,210.16)</u> | <u>358,236,922.16</u> |

| Item | Current period incurred amount | Prior period incurred amount |
|--|-----------------------------------|---------------------------------|
| II. Cash Flows from Investing Activities | | |
| Cash received from recovery of investments | 0.00 | 0.00 |
| Cash received from returns on investments | 103,247.68 | 97,402.65 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 102,555.90 | 49,466.13 |
| Net cash received from disposal of subsidiaries and other business entities | 0.00 | 0.00 |
| Other cash received relating to investing activities | <u>0.00</u> | <u>0.00</u> |
| Sub-total of cash inflows from Operating Activities | <u><u>205,803.58</u></u> | <u><u>146,868.78</u></u> |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 56,127,207.86 | 37,611,189.00 |
| Cash paid to acquire investments | 8,791,756.87 | 120,382,873.50 |
| Cash paid to acquire subsidiaries and other business entities | 0.00 | 0.00 |
| Other cash payments relating to investing activities | <u>0.00</u> | <u>0.00</u> |
| Sub-total of cash outflows from Investing Activities | <u><u>64,918,964.73</u></u> | <u><u>157,994,062.50</u></u> |
| Net cash flows from investing activities | <u><u>(64,713,161.15)</u></u> | <u><u>(157,847,193.72)</u></u> |

| Item | Current period incurred amount | Prior period incurred amount |
|--|-----------------------------------|---------------------------------|
| III. Cash Flows from Financing Activities | | |
| Cash received from capital contribution | 0.00 | 152,356,382.40 |
| Cash received from borrowings | 318,000,000.00 | 0.00 |
| Cash received from bonds issuing | 0.00 | 0.00 |
| Other cash received relating to financing activities | 0.00 | 0.00 |
| Sub-total of Cash Inflows from Financing Activities | <u>318,000,000.00</u> | <u>152,356,382.40</u> |
| Cash repayments of amounts borrowed | <u>318,000,000.00</u> | 0.00 |
| Cash payments for interest expenses and distribution of dividends or profits | 57,070,247.90 | 41,684,622.43 |
| Other cash payments relating to financing activities | 0.00 | 0.00 |
| Sub-total of cash outflows from Operating Activities | 375,070,247.90 | 41,684,622.43 |
| Net cash flows from financing activities | (57,070,247.90) | 110,671,759.97 |
| IV. Effect of Foreign Exchange Rate Changes on Cash | 0.00 | 0.00 |
| V. Net Increase in Cash and Cash Equivalents | <u>(198,239,619.21)</u> | <u>311,061,488.41</u> |
| Add: Opening Balance of Cash and Cash Equivalents of the Period | <u>587,356,764.56</u> | <u>276,295,276.15</u> |
| VI. Closing Balance of Cash and Cash Equivalents of the Period | <u>389,117,145.35</u> | <u>587,356,764.56</u> |

7. Consolidated Statement of Changes in Owner's Equity

*Amount of Current Year**Unit: Yuan*

| Item | Stock | Other equity instruments | | | Amount of Current Year Owner's equity belongs to parent's company | | | | | General risk preparation | Undistributed profit | Equity of minority shareholders | Total of owner's equity | |
|--|-----------------------|--------------------------|--------------------|-------|--|----------------------------|----------------------------------|--------------------|--------------------|-----------------------------|-------------------------|---------------------------------------|----------------------------|-------------------------|
| | | Preferred stock | Perpetual debts | Other | Capital Reserves | Less: treasury share | Other Comprehensive Income | Special reserve | Surplus reserve | | | | | |
| I. Closing Balance of Previous Year | 274,411,744.00 | | | | 1,047,407,103.78 | | | | | | 56,886,936.30 | 478,350,101.66 | 23,000,939.32 | 1,880,056,825.06 |
| Add: Changes in Accounting Policies | | | | | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | | | | | |
| Business Combination under Common Control | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | |
| II. Opening Balance of Current Year | 274,411,744.00 | | | | 1,047,407,103.78 | | | | | | 56,886,936.30 | 478,350,101.66 | 23,000,939.32 | 1,880,056,825.06 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | | | | | | | | | | | 12,587,209.90 | 128,245,946.64 | 4,195,737.43 | 145,028,893.97 |
| (I) Total consolidated income | | | | | | | | | | | | 195,715,505.34 | 2,475,026.93 | 198,190,532.27 |
| (II) Capital contributed by owners and capital decreases | | | | | | | | | | | | | 1,720,710.50 | 1,720,710.50 |
| 1. Shareholder invested common stock | | | | | | | | | | | | | 2,000,000.00 | 2,000,000.00 |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | (279,289.50) | (279,289.50) |
| (III) Distribution of Profits | | | | | | | | | | | 12,587,209.90 | (67,469,558.70) | | (54,882,348.80) |
| 1. Appropriations to Surplus Reserves | | | | | | | | | | | 12,587,209.90 | (12,587,209.90) | | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | | | | | |
| 3. Distribution to Owners | | | | | | | | | | | | (54,882,348.80) | | (54,882,348.80) |
| 4. Others | | | | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | | | | | | | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | | | | |
| IV. Closing Balance of Current Period | <u>274,411,744.00</u> | | | | <u>1,047,407,103.78</u> | | | | | | <u>69,474,146.20</u> | <u>606,596,048.30</u> | <u>27,196,676.75</u> | <u>2,025,085,719.03</u> |

Amount of Last Year

Unit: Yuan

| Item | Stock | Other equity instruments | | | Amount of Last Year Owner's equity belongs to parent's company | | | | | General risk preparation | Undistributed profit | Equity of minority shareholders | Total of owner's equity |
|---|-----------------------|--------------------------|--------------------|-------|---|----------------------------|----------------------------------|--------------------|-----------------|-----------------------------|-------------------------|---------------------------------------|----------------------------|
| | | Preferred stock | Perpetual debts | Other | Capital Reserves | Less: treasury share | Other Comprehensive Income | Special reserve | Surplus reserve | | | | |
| I. Closing Balance of Previous Year | 237,094,080.00 | | | | 515,451,879.22 | | | | | 43,887,425.54 | 357,216,746.16 | 195,512.77 | 1,153,845,643.69 |
| Add: Changes in Accounting Policies | | | | | | | | | | | | | |
| Corrections of Prior Period | | | | | | | | | | | | | |
| Errors | | | | | | | | | | | | | |
| Business Combination under Common Control | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | |
| II. Opening Balance of Current Year | 237,094,080.00 | | | | 515,451,879.22 | | | | | 43,887,425.54 | 357,216,746.16 | 195,512.77 | 1,153,845,643.69 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | 37,317,664.00 | | | | 531,955,224.56 | | | | | 12,999,510.76 | 121,133,355.50 | 22,805,426.55 | 726,211,181.37 |
| (I) Total consolidated income | | | | | | | | | | | 176,809,800.66 | 3,156,951.83 | 179,966,752.49 |
| (II) Capital contributed by owners and capital decreases | 37,317,664.00 | | | | 531,955,224.56 | | | | | | | 19,648,474.72 | 588,921,363.28 |
| 1. Shareholder invested common stock | 37,317,664.00 | | | | 531,955,224.56 | | | | | | | | 569,272,888.56 |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | 19,648,474.72 | 19,648,474.72 |
| (III) Distribution of Profits | | | | | | | | | | 12,999,510.76 | (55,676,445.16) | | (42,676,934.40) |
| 1. Appropriations to Surplus Reserves | | | | | | | | | | 12,999,510.76 | (12,999,510.76) | | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise | | | | | | | | | | | | | |
| 3. Distribution to Owners | | | | | | | | | | | | (42,676,934.40) | (42,676,934.40) |
| 4. Others | | | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | | | | | | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | | | |
| IV. Closing Balance of Current Period | <u>274,411,744.00</u> | | | | <u>1,047,407,103.78</u> | | | | | <u>56,886,936.30</u> | <u>478,350,101.66</u> | <u>23,000,939.32</u> | <u>1,880,056,825.06</u> |

8. Statement of changes in owners' equity of the parent company

*Amount of Current Year**Unit: Yuan*

| Item | Stock | Other equity instruments | | | Amount of Current Year | | | | | Undistributed profit | Total of owner's equity | |
|--|-----------------------|--------------------------|-----------------|-------|-------------------------|----------------------|----------------------------|-----------------|-----------------|----------------------|-------------------------|-------------------------|
| | | Preferred stock | Perpetual debts | Other | Capital Reserves | Less: treasury share | Other Comprehensive Income | Special reserve | Surplus reserve | | | |
| I. Closing Balance of Previous Year | 274,411,744.00 | | | | 1,046,913,785.13 | | | | | 56,886,936.30 | 321,999,741.15 | 1,700,212,206.58 |
| Add: Changes in Accounting Policies | | | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | | | |
| Other | | | | | | | | | | | | |
| II. Opening Balance of Current Year | 274,411,744.00 | | | | 1,046,913,785.13 | | | | | 56,886,936.30 | 321,999,741.15 | 1,700,212,206.58 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | | | | | | | | | | 12,587,209.90 | 58,402,540.33 | 70,989,750.23 |
| (I) Total consolidated income | | | | | | | | | | | 125,872,099.03 | 125,872,099.03 |
| (II) Capital contributed by owners and capital decreases | | | | | | | | | | | | |
| 1. Shareholder invested common stock | | | | | | | | | | | | |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | |
| (III) Distribution of Profits | | | | | | | | | | 12,587,209.90 | (67,469,558.70) | (54,882,348.80) |
| 1. Appropriations to Surplus Reserves | | | | | | | | | | 12,587,209.90 | (12,587,209.90) | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | | (54,882,348.80) | (54,882,348.80) |
| 3. Other | | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | | | | | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | | |
| IV. Closing Balance of Current Period | <u>274,411,744.00</u> | | | | <u>1,046,913,785.13</u> | | | | | <u>69,474,146.20</u> | <u>380,402,281.48</u> | <u>1,771,201,956.81</u> |

*Amount of Last Year**Unit: Yuan*

| Item | Stock | Other equity instruments | | | Capital Reserves | Amount of Last Year | | Special reserve | Surplus reserve | Undistributed profit | Total of owner's equity |
|--|-----------------------|--------------------------|-----------------|-------|-------------------------|----------------------|----------------------------|----------------------|-----------------------|-------------------------|-------------------------|
| | | Preferred stock | Perpetual debts | Other | | Less: treasury share | Other Comprehensive Income | | | | |
| I. Closing Balance of Previous Year | 237,094,080.00 | | | | 514,958,560.57 | | | 43,887,425.54 | 247,681,078.74 | 1,043,621,144.85 | |
| Add: Changes in Accounting Policies | | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | | |
| Other | | | | | | | | | | | |
| II. Opening Balance of Current Year | 237,094,080.00 | | | | 514,958,560.57 | | | 43,887,425.54 | 247,681,078.74 | 1,043,621,144.85 | |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "()") | 37,317,664.00 | | | | 531,955,224.56 | | | 12,999,510.76 | 74,318,662.41 | 656,591,061.73 | |
| (I) Total consolidated income | | | | | | | | | 129,995,107.57 | 129,995,107.57 | |
| (II) Capital contributed by owners and capital decreases | 37,317,664.00 | | | | 531,955,224.56 | | | | | 569,272,888.56 | |
| 1. Shareholder invested common stock | 37,317,664.00 | | | | 531,955,224.56 | | | | | 569,272,888.56 | |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | |
| (III) Distribution of Profits | | | | | | | | 12,999,510.76 | (55,676,445.16) | (42,676,934.40) | |
| 1. Appropriations to Surplus Reserves | | | | | | | | 12,999,510.76 | (12,999,510.76) | | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | (42,676,934.40) | (42,676,934.40) | |
| 3. Other | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | | | | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | |
| 1. Provision in current period | | | | | | | | | | | |
| 2. Used in current period | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | |
| IV. Ending balance of current period | <u>274,411,744.00</u> | | | | <u>1,046,913,785.13</u> | | | <u>56,886,936.30</u> | <u>321,999,741.15</u> | <u>1,700,212,206.58</u> | |

III. BASIC INFORMATION ABOUT THE COMPANY

Taiji Computer Corporation Limited (hereinafter referred to as “the Company” or “Company”) was jointly incorporated by investment from 15th Institute, CETC (hereinafter referred to as “15th Institute”, the major initiator), along with Beijing Jinghua Dechuang Investment Co., Ltd. and Beijing Longkai Innovation Technology Development Co., Ltd. and 7 natural persons, in accordance with State Economic and Trade Commission JMQG [2002]712 Approval on the Establishment of Taiji Computer Corporation Limited, the XYH [2001]011 Approval on the Reform and Reconstruction of Taiji Computer Corporation Limited issued by the Economic System Reform and Economic Operation Division under Ministry of Information Industry and the Ministry of Finance CQ [2002]361 Approval by the Ministry of Finance on the Management of (fund raising) State-owned Stock Right of Taiji Computer Corporation Limited, with registered address and head office located in Beijing City, the People’s Republic of China.

The Company’s parent company is the 15th Institute and final parent company is CETE. Upon establishment, the total share capital is 7,378.92 Yuan, with 1 Yuan par value per share. On March 5, 2010, the Company issued 25,000,000 common shares (A share) to domestic investors, and listed in Shenzhen Stock Exchange on March 12, 2010, total share capital increased to 98,789,200 Yuan after issuing. In 2011 and 2012, the capital increased by 98,789,200 and 39,515,700 Yuan through capital reserve, the capital public reserves were transferred into share capital and increased the total share capital to 237,094,100 Yuan; in 2013, the Company issued shares and paid cash to purchase assets and raised supporting funds, a total shares of 37,317,700 Yuan were issued, with the total share capital of 274,411,800 Yuan.

The Company and its subsidiaries (collectively “the Group”) have engaged in industry solution and service, IT consulting and IT product value-added service and other integrated IT service business.

The financial statements have been approved by the resolution on March 26, 2015.

The consolidation scope of the Company’s financial statements is determined on the basis of control, and all subsidiaries are included in the consolidation scope of combined financial statement. Subsidiary refers to all entities controlled by the Company, when the Company has the right of the entity, enjoys variable return because of taking part in the relevant activities of the entity and has the ability to exert the right of the entity to influence such return. The entity is included in the consolidation scope on the date when the right of control of the entity is transferred to the Company and is excluded on the date when the right of control is terminated.

IV. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

1. Preparation basis

The financial statements are prepared on the basis of Accounting Standards for Business Enterprises — Basic Standards issued on Feb. 15, 2006, explanation of the accounting standards, and other related stipulations (hereafter totally called — Enterprise Accounting Standards) and CSSRC's Preparation Rules for Information Disclosures by Companies Offering Securities to the Public — General Rules on Financial Report.

The financial statements were prepared based on going concern.

2. Sustainable operation

The Company's capability to operate sustainably for 12 months after the report period is comprehensively evaluated during the preparation of the financial statements. Using all available information, including the history of recent profitable operation, with financial evidence such as bank financing as supporting information, it can be reasonably expected through evaluation that the Company has sufficient resources to ensure the sustainable operation within 12 months after the end of the report period, so the financial statements are prepared based on sustainable operation.

V. IMPORTANT ACCOUNTING POLICY AND ACCOUNTING ESTIMATE

Specific accounting policy and accounting estimates:

None

1. Declaration on compliance with the Accounting Standards for Enterprises

The Company's preparation of financial statements for the year 2014 meets the requirements of the Accounting Standards for Enterprise give a true and fair view on the financial condition as of December 31, 2014, results of operations, cash flows and other information in 2014.

2. Accounting period

The accounting periods are divided into annual and interim, the latter refers to a report period shorter than a whole accounting year. The accounting year starts on 1 January and ends on 31 December of Gregorian calendar.

3. Business cycle

The business cycle of the Company is 12 months.

4. Reporting currency

RMB is the currency used in the main economic environment where the domestic entities of the Company are located, and RMB is adopted as the recording currency of the Company. RMB is used to prepare the financial statements of the Company.

5. Accounting treatment of business combination under common control and not under common control

Business combination refers to a transaction or matter which combines two or more than two individual entities into one reporting entity. Business combination is divided into combination under the common control and combination not under common control.

(1) Business combination under common control

If the combining company uses cash payment, transfer of non-cash assets or assumption of debts as combination consideration, such combination consideration paid by the combining company and acquired owners' equities of the combined company should be calculated on book value. The difference between the book value of the owners' equities of the combined company acquired by the combining company in the consolidated financial statements of the controlling company and the book value of the paid consideration should be adjusted on capital reserve (capital stock premium). If the reserve (capital stock premium) is not sufficient to offset the difference, adjust the retained earnings. If the combining company uses equity securities as consideration, such consideration should be recorded as initial cost for long-term equity investment based on the book value of owners' equities of the combined company in the consolidated financial statements of the controlling company. The total face value of issued securities should be recorded as capital stock. The difference between the initial cost for long-term equity investment and total face value of issued securities should be offset by adjusting capital reserve. If the capital reserve is insufficient to offset, adjust retained earnings. Direct expenses related to the combination of company should be recorded into current profit and loss. The transaction expenses related to the issuance of equity securities or debt security for the combination of company should be recorded into the initial value of such equity securities or debt security.

In the event that company combination under common control is realized through multiple transactions, if such transactions belong to a "package deal", the Company will treat these transactions as a transaction to acquire the control of a company according to the above common control principle. If these transactions do not belong to a "package deal", the Company will use the Company's equity investment before acquiring the control of the combined company, to offset the confirmed loss and profit, other comprehensive income and change in net assets from the date of acquiring control or the combining company and combined company under common control, whichever is later, to the date of combination; the difference should be recorded into retained earnings or current profit and loss in the report period.

(2) *Business combination not under common control*

The combination costs of the acquirer and the identifiable net assets obtained by the acquirer in a business combination shall be recorded at the fair values. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation. The balance that the combination costs are less than the fair value of the identifiable net assets the acquirer obtains from the acquiree in a business combination, shall be recorded into the gains and losses at the current period. The direct correlative charges caused by the combination shall be recorded into the gains and losses. The transaction expenses for the issuance of equity securities or bonds for the business combination shall be recorded into the amount of initial accounting of the equity securities or liabilities.

In case that business combination not under common control are achieved through several transactions, if several transactions are “package deal”, the Company will treat them as one transaction for which the Company achieves the right of control of subsidiary; if several transactions are not “package deal”, the equity of the combined company held by the combining company before the acquisition date shall be re-accounted according to the fair value of the equity at the acquisition date, the differences between the fair value and its book value shall be included in the current income from investment; for the equity of the combined company which is held by the combining company before the acquisition date, if it results in the change in other owner’s equity except other comprehensive income under equity method and net profit and loss, other comprehensive income and distribution of profits (referred to “change in other owner’s equity” below), and other relevant comprehensive income, change in other owner’s equity shall be transferred into the current profit and loss at the acquisition date, except other comprehensive income caused by the invested company re-calculating the net liabilities or assets of defined benefit plan.

(3) *Judgment of “package deal”*

For business combination achieved through several transactions, the Company judges whether the step transactions are “package deal” according to clauses of agreements of the step transactions, equity proportion acquired at each transaction, object of achievement, form of achievement, time of achievement and the consideration. If the clauses, conditions and economic influence of each transaction meet one or more of the following conditions, the Company usually treats the step transactions as “package deal”: ① The transactions are concluded at the same time or considering the influence of each other; ② The transactions can achieve one complete business result in a whole; ③ The occurrence of one transaction depends on that of another transaction; ④ One transaction is not economic individually but it is economic considering other transactions.

6. Preparation of consolidated statements

The consolidated statements includes those of the Company and all its subsidiaries which are companies under the Company’s control. Subsidiary is the subject controlled by the Company.

Subsidiary is consolidated from the date on which effective control over the subsidiary is exercised by the Company; subsidiary is no longer consolidated from the date when that control ceases. The subsidiary acquired by the company under common control is consolidated from the date on which effective control over the subsidiary is exercised by the Company and in the consolidated income statement, its net interests realized on the consolidation date are listed as individual entry.

When there exists discrepancy between accounting policies adopted by subsidiaries and the Company, statements of subsidiaries are adjusted according to the Company's policies upon consolidation. When subsidiary acquired through merger of enterprise not under the same controller, its financial statements are adjusted on the basis of fair value of the recognizable net assets as of purchase day.

All significant accounts' balance, transaction and unrealized profit within the Company are off-set in preparation of the consolidated statements. But impairment loss of relevant assets showed by internal transaction shall be recognized in full. Owners' equity of subsidiaries and that part of the current net profit and loss not attributable to the Company is shown under shareholders' equity and net profit in consolidated financial and current net profit and loss statements as minority interest and minority gains and losses. Unrealized profit and loss from internal transaction for which the Company sales the assets to the subsidiary shall write off in full retained profits attributable to the shareholders of the parent; unrealized profit and loss from internal transaction for which the subsidiary sales the assets to the Company shall write off retained profits attributable to the shareholders of the parent and minority interest income based on the distribution proportion. Unrealized profit and loss from internal transaction for which the assets are sold between subsidiaries, shall write off the net profit attributable to the shareholders of the parent and minority interest income based on the distribution proportion.

If there is difference between the judgment of a transaction based on the Company as the accounting entity and that based on the subsidiary as the accounting entity, the transaction shall be adjusted from the point of view of the Company.

7. Classification of joint venture and accounting treatment of joint operation

Based on the rights and obligation in joint venture contract, considering the structure, legal form, contract terms and other factors, the Company divides joint venture into joint operation and joint venture.

If the Company is a party with the right of common control of joint venture, or the Company is not a party with the right of common control of joint venture but enjoys the relevant assets of the venture and assumes the relevant liabilities, the assets, liabilities, income and expenses related to the share of interest of the Company in the joint venture shall be accounted. For the assets purchased by the Company from the joint venture, investment in the joint venture, or assets sold to the joint venture (except the assets which are a part of transaction), the profit and loss attributable to the joint venture generated from the transaction shall be accounted before such assets are sold to a third party. For

impairment loss of the relevant asset purchased from the joint venture, the Company accounts part of loss based on the distribution proportion, for impairment loss of the relevant asset invested or sold to the joint venture, the Company accounts the loss in full.

8. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits readily available for the payment of and the Group's investment of short-term (generally within 3 months from the purchase date), highly liquid and readily convertible to known amounts of cash, with an insignificant risk of changes in value.

9. Foreign currency and accounting method for foreign currency

(1) Accounting method for foreign currency

Concerning the foreign-currency transactions that occurred, the foreign currency shall be converted into the recording currency according to the middle price of the market exchange rate disclosed by the People's Bank of China on the date of the transaction. Among the said transactions that occurred, those involving foreign exchanges shall be converted according to the exchange rates adopted in the actual transactions.

(2) Conversion method of foreign-currency monetary accounts and foreign-currency non-monetary accounts

On the balance sheet date, the foreign-currency monetary accounts shall be converted into the recoding currency according to the spot exchange rates on the Balance Sheet Date. The resulting balance of exchange shall be recognized as gains/losses from foreign exchange, except that: ① the exchange gain/loss caused by the foreign-currency borrowings related to purchasing fixed assets shall be handled according to the principle of capitalization of borrowing costs; ②the exchange gain/loss caused by the change in the book balance of foreign-currency monetary accounts available for sale except amortized cost shall be recorded into current profit and loss.

On the balance sheet date, the foreign-currency non-monetary accounts recorded by historical cost shall be converted according to the spot exchange on the date of the transaction. The foreign-currency non-monetary accounts recorded by fair value shall be converted according to the spot exchange on the date when the fair value is recognized, and the difference between the recording-currency amount and the original book recording-currency amount shall be recognized as the gain/loss from fair value changes (including change in exchange rate) and recorded into the gain/loss of the current period.

10. Financial instruments

(1) Recognition method for fair value of financial assets and financial liabilities

The quotation in the active market shall be used to recognize the fair value of the financial assets or financial liabilities existing in active market. If the financial instruments do not exist in the active market, the fair value shall be recognized by value appraisal techniques.

During evaluation, the Company uses valuation technique supported by applicable, sufficient available data and other information in current circumstances, selects the input values consistent with the characteristics of asset or liability considered in the transaction of relevant asset and liability by market participant, and gives priority in use of observable input values as far as possible. Unobservable input values can be used if the relevant observable input values are unavailable or infeasible.

(2) Classification, recognition and accounting of financial assets

Financial assets purchased or sold in common manner shall be recognized or derecognized at the transaction date, interest generated from the transaction of the relevant asset and liability shall be accrued and recognized after the ownership is transferred on the settlement date. Financial assets are initially recognized and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, held-to-maturity investment, loans and receivables as well as held-for-sale financial assets. The initially recognized financial assets are recorded at the fair value. For the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, the relevant transaction expenses are included in the current profit and loss; and for other financial assets, the relevant transaction expenses are included in the initial recognition amount.

(1) Financial assets which are recorded at their fair value and the variation of which is recorded into the profits and losses of the current period

Include tradable financial assets and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss. The financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss all are tradable financial assets.

Tradable financial assets refer to the financial assets which comply with one of the following conditions: A. The financial assets are mainly purchased for being sold in the near future; B. The financial assets are part of identifiable financial instrument portfolio for which centralized management is carried out, and objective evidence shows that the Company will manage the portfolio for making a profit in the near future; C. The financial assets are derivative instruments, except derivative instruments designated as effective hedging instruments, the financial guarantee contract, the derivative instruments which there is no quoted price in the active market and the fair value of which cannot be reliably calculated, investment linked and which are settled through the delivery of equity instrument.

For tradable financial assets, subsequent accounting is carried out at the fair value and the profit or loss generated from the change in the fair value as well as the dividends and interest related to the financial assets are included in the current profit and loss.

(2) The investments which will be held to their maturity

The term “held-to-maturity investment” refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the enterprise holds for a definite purpose or the enterprise is able to hold until its maturity. The investment with due date over 12 month but to be due within 12 months (including 12 months) as of the date of the balance sheet that is held to its due date shall be listed as the non-current assets to be due within one year in the balance sheet; the investment to be due within 12 months (including 12 months) shall be listed as other current assets.

Held-to-maturity investment is subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

Effective interest rate method refers to the method by which the amortized cost as well as the interest income or expenditure in previous periods are calculated with effective interest rate of the financial asset or liability (including financial asset or liability portfolio). Effective interest rate refers to the interest rate by which the future cash flow of financial asset or liability is discounted as the current book value during the estimated duration or applicable short duration.

When calculating effective interest rate, the Company will estimate the future cash flow according to all contract terms of the financial asset or liability (taking no account of future credit loss) and take account of various charges, transaction expenses, reduced prices or premium as part of effective interest rate paid or received by various parties to financial asset or liability contract.

(3) Loans and receivables

Loans and receivables refer to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo-amount is fixed or determinable. The loans and receivables of the Company include notes receivables.

Loans and receivables shall be subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

(4) Financial assets available for sale

Financial assets available for sale include the non-derivative financial assets for sale designated at the initial recognition and the financial assets not classified into other catalogues. The financial assets for sale to be sold within 12 months as of the date of the balance sheet shall be listed as the non-current assets to be due within one year in the balance sheet.

For financial assets available for sale, subsequent accounting is carried out at the fair value, the profit or loss generated from the change in the fair value, except that impairment loss and balance of exchange related to foreign currency financial asset and amortized cost are

included in the current profit and loss, are included in other comprehensive income and included in the current profit and loss when the financial asset is derecognized. However, the equity instrument investment available for sale for which there is no quoted price in the active market and the fair value cannot be reliably calculated is recorded at its cost.

The interest achieved and cash dividends declared by the invested unit during the period when the financial asset is held are included in income from investment.

(3) Financial assets impairment

Apart from financial assets recorded by fair value and whose changes included in current profit or loss, the Group conducts, on balance sheet date, check up over the carrying value of the financial assets. If there is objective evidence that a particular financial asset is impaired, provision for impairment is made.

Objective evidence that a financial asset is impaired, refers to matters that after initial recognition of the financial asset the actual financial assets incurred, the estimated future cash flows affected, and the Group can reliably measure the effect.

The Company makes an independent impairment test on the financial asset with significant single amount; for the financial asset without significant single amount, an independent impairment test is carried out for the financial asset or an impairment test is carried out for the financial asset portfolio with similar credit risk. If the independent impairment test shows no impairment loss, the financial asset (including the financial asset with significant single amount or without significant single amount) shall be included in the financial asset portfolio for another impairment test. If the independent impairment test shows impairment loss, the financial asset shall not be included in the e financial asset portfolio for another impairment test.

(1) Impairment of held-to-maturity investment, loans and accounts receivables

For the financial asset recorded on the basis of costs or post-amortization costs, the book value is written down to present value of estimated future cash flow, the written-down amount is recognized as impairment loss and included in the current profit and loss. If there is any objective evidence showing that the value of such financial asset has been recovered and is objectively related to the subsequent events that occur after the losses were recognized, the originally recognized impairment losses are reversed, the book value of the financial asset after the impairment losses is reversed shall not more than the amortized cost at the reversing date if the impairment provision is not accrued.

(2) Impairment of available-for-sale financial assets

The objective evidences showing that available-for-sale financial assets have been impaired include severe or non-transient depreciation of the fair value of equity instrument investment. The Company makes an independent impairment test on available-for-sale equity instrument investment on the date of balance sheet date, if the fair value of such equity instrument investment is lower than 50% (including 50%) of its initial cost of investment on the date of balance sheet date or has been lower than its initial cost of

investment for more than one year (including one year), such equity instrument investment is impaired; if the fair value of such equity instrument investment is lower than 20% (including 20%) but not to 50% of its initial cost of investment on the date of balance sheet, the Company will comprehensively consider other relevant factors, including the rate of price fluctuation, etc., to judge whether such equity instrument investment is impaired. The Company calculates the initial cost of investment of available-for-sale equity instrument investment with weighted average method.

When available-for-sale financial assets recorded at the fair value are impaired, the accumulating losses which are originally recognized in stockholders' equity and generated from the decreased fair value are reversed. For the recognized impairment losses of available-for-sale debt instrument investment, if there is any objective evidence showing that the value of such debt instrument investment has been recovered and is objectively related to the subsequent events that occur after the losses were recognized, the originally recognized impairment losses are reversed and included in the current profit and loss. For the recognized impairment losses of available-for-sale debt instrument investment, the recovered fair value is directly included in stockholders' equity.

When available-for-sale financial asset recorded at the cost is impaired, the difference between its book value and the present value discounted by the future cash flow with market return of similar financial assets is recognized as impairment loss and included in the current profit and loss. The recognized impairment loss will not be reversed in the future periods.

(4) Recognition and accounting method for transfer of financial assets

The financial asset meeting one of the following conditions are derecognized: ① The contractual right to receive the cash flow of the financial asset is terminated; ② The financial asset is transferred and almost all risks and rewards generated from the ownership of the financial asset have been transferred to the transferee; ③ The financial asset is transferred, the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset but has given up the control to the financial asset.

If the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset and has not given up the control to the financial asset, the relevant financial asset and corresponding financial liability shall be recognized to the extent that the transferred financial asset continues to be involved in. The extent that the transferred financial asset continues to be involved in refers to the risk level faced by the Company caused by the change in the value of financial asset. If the financial asset transferred as a whole meets the conditions of derecognition, the difference between the book value of financial asset and the sum of the consideration received because of transferring the financial asset and the change in fair value originally included in other comprehensive income shall be included in the current profit and loss.

If the transfer of partial financial asset satisfies the criteria of derecognition, the difference of book value of the transferred financial asset before and after derecognition should be amortized based on the financial asset's relative fair value. And the difference between the

consideration from the transfer and sum of changes in fair value of the derecognized financial asset originally accounted in other comprehensive income and the book value before amortization should be recorded into current profit and loss.

(5) Classification and accounting of financial liabilities

Financial liabilities are classified into the following categories when they are initially recognized: Financial liabilities recorded at fair value with their changes recorded in current profit and loss, and other financial liabilities. For the financial liabilities recorded by fair value with their changes recorded in current profit and loss, the relevant transaction expenses are directly included in the current profits and losses, for other financial liabilities, the relevant transaction expenses are included initial recognition amount.

(1) The financial liabilities recorded at fair value with their changes recorded in current profit and loss

The conditions by which the financial liabilities are classified as trading financial liabilities and designated as the financial liabilities recorded at fair value with their changes recorded in current profit and loss at initial recognition are same as those by which the financial assets are classified as trading financial assets and designated as the financial assets recorded at fair value with their changes recorded in current profit and loss at initial recognition.

The Company makes subsequent accounting on the financial liabilities which are recorded at their fair values and of which the variation is included in the current profits and losses, the profit or loss generated from the variation of fair value and the dividends and interest expenses related to such financial liabilities are included in the current profit and loss.

(2) Other financial liabilities

For derivative financial liabilities which there is no quoted price in the active market and the fair value of which cannot be reliably calculated, equity instrument linked and which are settled through the delivery of equity instrument, the Company makes subsequent accounting at the costs. For other financial liabilities, the Company makes subsequent accounting at the amortized costs with effective interest rate method and the profit or loss generated from derecognition or amortization are included in the current profit and loss.

(3) Guarantee contract

Guarantee contract which is not designated as the financial liabilities recorded at fair value with their changes recorded in current profit and loss is initially recognized at fair value. The Company makes subsequent accounting at the higher between the amount recognized according to Accounting Standards for Business Enterprises No. 13 — Contingencies after initial recognition and the difference between the initially recognized amount and the accumulative amortized amount according to Accounting Standards for Business Enterprises No. 14 — Revenues.

(6) Derecognition of financial liabilities

Only if the whole or partly of the current obligation of the financial liabilities of the Company is relieved, should derecognize the financial liabilities or partly of it. The Company (debtor) signs an agreement with creditor to assume new financial liabilities and replace the existing financial liabilities and the contract terms of new financial liabilities differ in essence from those of existing financial liabilities, the existing financial liabilities are derecognized and the new financial liabilities are recognized.

For the financial liabilities are derecognized in whole or in part, the difference between the book value of the portion whose recognition has been stopped and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) is included in the current profit and loss.

(7) Writing off financial assets and financial liabilities

The Company has legal right to write off the recognized financial assets and financial liabilities and the right is executable in current, and the Company plans to carry out net settlement or realize financial assets and settle financial liabilities, the net amount after writing off financial assets and financial liabilities shall be disclosed in the balance sheet. In addition to, financial assets and financial liabilities are disclosed in the balance sheet respectively and writing-off is not permitted.

(8) Equity instrument

Equity instrument refers to the contract which can verify possession of the remaining interests in the assets after deducting all liabilities. In business combination, the transaction expenses generated from the combining company issuing equity instrument writes off the premium of equity instrument, if the premium is insufficient, the retained earnings are written off. For other equity instrument, the differences between the consideration received at the issuing date and the transaction expenses are included in the owner's equity.

The Company distributes equity instrument to the holder with various methods (excluding stock dividends) and writes down the owner's equity. Issuing (including refunding), buying-back, sale or writing off equity instrument are treated as change in equity and change in fair value of equity instrument is not recognized. The consideration and transaction expenses paid by the Company to buy back its own equity instrument (including treasury stock) write down the owner's equity and no financial assets are recognized.

11. The accounts receivables*(1) Bad debt provision for individually significant accounts receivable*

| | |
|--|--|
| Judgment basis or monetary standards of provision for bad debts of the individually significant accounts | The Company makes an independent impairment test on the accounts receivable with significant single amount. When there are objective evidences which show that the Company cannot receive the accounts receivable, provision for bad debts shall be withdrew. Judgment basis of the individually significant accounts receivable: More than 10 million Yuan. |
|--|--|

| | |
|--|---|
| Method of individual provision for bad debts of the individually significant accounts receivable | The Company makes an independent impairment test on the accounts receivable with significant single amount, and provision for bad debts shall be withdrawn on the basis of the balance between the current values of the predicted future cash flow lower than book value. Upon independent individually significant accounts receivable impairment test, the accounts receivable with significant single amounts has not been impaired, it shall be included in receivables portfolio with similar credit risks for impairment test. Otherwise, it shall not be included in receivables portfolio with similar credit risks for impairment test. |
|--|---|

(2) Accounts receivable for which bad debt provisions are made on the credit risk portfolio basis

| Name of portfolio | Allowance of bad debt provision on the portfolio basis |
|--------------------------|---|
| Account age portfolio | Account age analysis method |
| Related party portfolio | |
| Nature portfolio | |

In the portfolios, adopting account age analysis method to withdraw bad debt provision:

√ Applicable Inapplicable

| Account age | Provision proportion for accounts receivable | Provision proportion for other accounts receivable |
|--|---|--|
| Within 6 months (including 6 months, similarly hereinafter) | 0.00% | 2.50% |
| 7–12 months | 2.50% | 2.50% |
| 1–2 years | 5.00% | 5.00% |
| 2–3 years | 15.00% | 15.00% |
| 3–4 years | 35.00% | 35.00% |
| 4–5 years | 80.00% | 80.00% |
| More than 5 years | 100.00% | 100.00% |

In the portfolios, adopting balance percentage method to withdraw bad debt provision:

Applicable Inapplicable

In the portfolios, adopting other methods to withdraw bad debt provision:

Applicable Inapplicable

(3) *Accounts receivable with an insignificant single amount but for which the bad debt provision is made individually*

Reason of individually
withdrawing provision

The characteristics of non-significant accounts receivable which result in independent impairment test include: the accounts receivable for which there are disputes, lawsuit or arbitration; the accounts receivable for which there are obvious evidences showing that the debtor is not likely able to perform the repayment obligation, etc.

Reason of individually
withdrawing provision

The Company makes an independent impairment test on the accounts receivable with insignificant single amount but there are objective evidences which show that the Company cannot receive the accounts receivable according to the original clauses, if objective evidences show that the accounts receivable with insignificant single amount have not been impaired, and impairment loss should be confirmed and provision for bad debts shall be withdrawn on the basis of the balance between the current values of the predicted future cash flow lower than book value.

12. Inventory*(1) Category of Inventory*

Inventories include finished goods and outgoing inventories, etc.

(2) Evaluation method for acquiring and outgoing inventories

Inventory is evaluated at its actual costs, including purchase costs and other costs. The cost in dispatch or purchase shall be calculated with the method of weighted mean.

(3) Recognition of net realizable value and allowance method of depreciation reserves for inventories

The net realizable value refers to in the daily business activity the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. The company shall confirm the net realizable value of inventories on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventories and the effects of events occurring after the date of the balance sheet.

On the date of balance sheet date, the inventories are recorded at the lower of the costs and the net realizable value. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made and be included in the current profits and losses. The provision for the loss on decline in value of inventories is usually made based on the deference between the cost of individual inventory item and its net realizable value.

After the provision for the loss on decline in value of inventories is made, if the influence factors against which the value of inventory is written down have been disappeared and the net realizable value is higher than its book value, the accrued provision for the loss on decline in value of inventories shall be reversed and included in the current profit and loss.

*(4) Inventory system for inventories: Perpetual inventory system***13. Assets determined to be held for sale**

The non-current asset or asset portfolio synchronously satisfying the following conditions shall be determined as the assets to be held for sale: (I) The non-current asset or asset portfolio must be immediately sold in accordance with the common and conventional clauses for sale of this kind of assets under the current conditions; (II) The company has made the resolutions for disposal of the non-current asset or asset portfolio; (III) The company has signed the irrevocable transfer agreement with the assignee; (IV) The transfer will be accomplished within one year.

Non-current assets complying with the conditions of held-for-sale (excluding financial assets and deferred income tax assets) are recorded at the lower of the book value and the fair value minus disposal expenses, if the fair value minus disposal expenses is lower than the original book value, impairment loss shall be recognized.

Non-current assets held for sale and assets and liabilities in disposal portfolio are classified as current assets and liabilities. Discontinuing operation refers to the constituent part which complies with one of the following conditions, has been disposed or classified as held-for-sale and is individually operated or for which the financial statements are individually prepared: (I) The constituent part represents an independent main business or in a main business region; (II) The constituent part is part of disposal plan of an independent main business or in a main business region; (III) The constituent part is only a subsidiary acquired for resale.

14. Long-term equity investment

Long-term equity investment includes: long-term equity investment of the Company in subsidiary; long-term equity investment of the Company in cooperative enterprises and affiliated business.

Subsidiaries refer to the company which is controlled by the Company. Cooperative enterprises refer to the company for which the Company implements common control through an independent company and has the right to jointly arrange its net assets through legal form, contract term and other facts or conditions. Affiliated business refers to the invested unit for which the Company has a significant influence on its financial and operating decision.

Investment in subsidiaries is disclosed with cost method in the Company's financial statement and adjusted with equity method when the combined financial statements are prepared; investment in cooperative enterprises and affiliated business are accounted with equity method.

(1) Determination of initial investment cost

Long-term equity investments formed by business combination: Long-term equity investment formed by the business combination under common control, the investment cost shall be the share of book value of owner's equity acquired at the combination date; Long-term equity investment formed by the business combination not under common control, the investment cost shall be the combined cost. Besides the long-term equity investment formed by the business combination: the initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid; The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

(2) Subsequent accounting and the profit and loss determination

The price of a long-term equity investment accounted by employing the cost method shall be included at its initial investment cost. The dividends or profits declared to distribute by the invested company shall be recognized as the current investment income.

For a long-term equity investment accounted with equity method, if the initial cost is more than the investing enterprise' attributable share of the fair value of the invested company's identifiable net assets for the investment, the initial cost of the long-term equity investment is recorded as the cost of the long-term equity investment. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested company's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

When adopting equity method for accounting long-term equity investment, the Company shall recognize the investment profits or losses according to the attributable share of the net profits or losses of the invested unit. The net profits or losses of the invested unit shall be recognized to the extent that the book value of long-term equity investment and other long term equity attributable to the net investment of the invested unit in essence are written down to zero, however, if the Company has the obligation to undertake extra losses which comply with the recognition conditions of estimated liabilities according to the contingency standard, investment losses shall be recognized and accounted as estimated liabilities. Where any change is made to the owner's equity other than the net profits and losses, other comprehensive income and profit distribution of the invested company, the book value of the long-term equity investment shall be adjusted and be included in capital reserve. For the profit or cash dividends from the invested unit, the book value of long-term equity investment shall be correspondingly written down based on the part attributable to the Company. The unrealized profit or loss from the internal transaction with the invested unit shall be offset by the share attributable to the Company calculated as per the proportion and then the investment income shall be confirmed based on it. As to the unrealized loss from the internal transaction between the Company and the invested unit, if it belongs to the assets impairment loss, it shall not be offset.

(3) Recognition criterion for control, common control and significant influence

The control over the invested unit refer to that the Company enjoys variable return through participating the related activities of the invested unit and have the ability to use the right to the invested unit to influence its return.

In case of the common control over a certain arrangement in accordance with the related provisions, only when the related activities of this arrangement must be agreed by the Company and other participants sharing the control power before the decision is made, can it be deemed as the common control.

In case of power of participation in the decision-making regarding the financial and operation policy of the invested unit, if it cannot control or jointly control with other participants the stipulation of these policies, it shall be deemed that they have significant influence on the invested unit.

15. Investment property

Accounting model of Investment property

Not applicable

16. Fixed assets

(1) Recognition of fixed assets

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful life of over one accounting year.

(2) Depreciation methods

| Type | Depreciation methods | Useful Life | Residual Value Rate | Annual Depreciation Rate |
|--|-----------------------|-------------|---------------------|--------------------------|
| Houses and buildings | Composite life method | 40 | 5.00% | 2.38 |
| Machinery and equipment | Composite life method | 5 | 5.00% | 19 |
| Transport equipment | Composite life method | 5–10 | 5.00% | 9.5–19 |
| Electronic equipment and other equipment | Composite life method | 5–9 | 5.00% | 10.56–19 |

(3) Recognition criterion, valuation and depreciation method for financial lease of fixed assets

None

17. Construction-in-progress

The construction-in-progress shall be recorded as per the practical construction expenditure, including various construction expenditures, borrowing costs satisfying the capitalization conditions occurring before the assets reach up to the scheduled available state and other necessary expenditures. When the construction-in-progress reaches up to the scheduled available state, it shall be transformed to the fixed assets.

18. Borrowing costs

Borrowing costs include interest on borrowings and auxiliary expenses. As to the borrowing costs occurring for purchasing and building the fixed assets satisfying the capitalization conditions, when the expenditure to acquire and borrowing costs have occurred and the necessary purchase and building activities to guarantee the assets up to the scheduled available or salable state have initiated, the capitalization shall be initiated. When the purchased and built assets satisfying the capitalization conditions reach up to the scheduled available or salable state, the capitalization shall be terminated. Other borrowing costs shall be included in expenses.

Specific borrowings, the amount of interest costs actually incurred on such borrowings for the period shall be capitalized after deducting any interest earned from depositing the unused borrowings in the bank or any investment income arising from the temporary investment of those borrowings during the capitalization period. The capitalized amount of interests on general borrowings shall be determined on the basis that the weighted average of the excess of cumulative assets expenditures over the specific borrowings times capitalization rate of used general borrowings. The capitalization rate is calculated and determined according to the weighted average interest rate of general borrowings

The fixed assets satisfying the capitalization conditions refer to the fixed assets which need a rather long acquisition and construction activities or production activities to reach up to the scheduled available or salable state.

For the fixed assets satisfying the capitalization conditions, capitalization of borrowing costs should be suspended when abnormal interruption has occurred in asset acquisition and construction activities and lasted for more than three month until asset acquisition and construction activities resume.

19. Biological assets

None

20. Oil and gas assets

None

21. Intangible asset*(1) Valuation method, service life and depreciation test*

Intangible asset refers to the identifiable non-monetary assets without physical substance owned or controlled by the Company.

An intangible asset shall be recorded initially at cost. Expenditure related to intangible asset, if the relevant economic benefit may flow into the Company and its cost can be reliably calculated, is included in the cost of the intangible asset. Otherwise, the expenditure is included in the current profit and loss. Land use rights acquired are usually accounted as

intangible assets. For self-constructed plants and other building, the expenditure related to land use rights and construction cost are accounted as intangible asset and fixed assets respectively. For purchased houses and buildings, the relevant prices are amortized among land use rights and construction cost, if the relevant prices cannot be amortized; they are treated as fixed assets. For intangible assets with limited service life, the original value is amortized with straight-line method within the estimated service life from the assets are available for use.

The intangible assets with uncertain service life shall not be amortized.

At the end of report period, the Company shall check the service life and the amortization method of intangible assets with limited service life and carry out accounting estimate change in case that a change happens. In addition to, the Company shall check the service life of intangible assets with uncertain service life, if there are evidences showing that the intangible assets can bring economic benefit for the Company within the foreseeable period, the Company shall estimate the service life and carry out amortization according to the amortization policy for intangible assets with limited service life.

(2) Accounting policy for internal research, development expenditures

The Company's internal research, development expenditures are divided into the research expenditures and the development expenditures.

The research expenditures shall be recorded into the profit or loss for the current period.

The development expenditures may be confirmed as intangible assets when they satisfy the following conditions simultaneously; otherwise they shall be included in the profits and losses for the current period:

- ① It is feasible technically to finish intangible assets for use or sale;
- ② The management intend to finish and use or sell the intangible assets;
- ③ The manner by which intangible assets produce economic benefit, it is able to prove that there is market for the products produced by such intangible assets or such intangible assets themselves, for intangible assets for internal use, be able to prove the serviceability; it is able prove how intangible assets to generate economic benefits shall be proved;
- ④ It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; and
- ⑤ The development expenditures of the intangible assets can be reliably calculated, if the Company's internal research, development expenditures are divided into the research expenditures and the development expenditures, they shall be included in the profits and losses for the current period.

22. Long-term assets depreciation

As to fixed assets, construction-in-progress, intangible assets with finite service life and long-term equity investment on subsidiaries, cooperative enterprises, affiliated business and other non-current non-financial assets, the Company judges whether they show the signs of depreciation on the date of balance sheet date. If they show the signs of depreciation, their recoverable amount shall be evaluated and the depreciation test shall be carried out. As to the goodwill, and the intangible assets with uncertain service life and the intangible assets not reaching up to the scheduled available state, no matter whether it shows the depreciation or not, they shall be annually tested for depreciation.

As to the fixed assets, intangible assets, investment in the real estate is recorded at cost and the long-term equity investment, if they shows the depreciation, the depreciation test shall be carried out. In case that the depreciation test results show the amount recoverable of the assets is lower than the book value, The provision for impairment shall be accrued as per the balance and be recorded into the depreciation loss. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. The provision for impairment of the assets shall be calculated and confirmed based on the single asset; if it is difficult to estimate the amount recoverable of a single asset, the assets portfolio in which the asset is located shall be used to determine the amount recoverable of the assets portfolio. The assets portfolio is the min. assets combination that can separately produce the cash in-flow.

For goodwill independently disclosed in the financial statements, when impairment test is carried out, the book value of goodwill will be amortized among the asset units or asset unit portfolio which is expected to benefit from the synergistic effect of business combination. If the result of impairment test suggests the recoverable amount of the asset units or asset unit portfolio including the amortized goodwill is lower than their book value, the corresponding impairment loss shall be recognized. Impairment loss shall write off the book value amortized to the asset units or asset unit portfolio at first, and then write off the book value of other assets according to the proportion of the book value of other assets except goodwill in the asset units or asset unit portfolio.

The above impairment loss shall not be reversed in case that the value is recovered in the future periods after recognition.

23. Long-term unamortized expenses

The long-term unamortized expense, including the improvement in operation and renting and other expenses to be born in this year and the coming periods with the amortization period of over one year, shall be amortized on average in installments of the expected benefit period and shall be listed as the net amount of the actual expenses minus the accumulated amortization.

24. Employee compensation

(1) Short-term compensation

Short-term compensation includes salary, bonus, allowance and subsidy, welfare expense, medical insurance premiums, industrial injury insurance premium, birth insurance premium, housing fund, labor union and educational fund. In the accounting period of the employee providing the service to the company, the short-term compensation actually occurring herefrom shall be determined as the liabilities and included into the current profit or loss or the assets-related cost.

(2) Welfare after demission

Welfare after demission is divided into defined drawing plan and defined benefit plan. Defined drawing plan refers to welfare after demission that the Company pays fixed charges to independent fund and does not assume future payment obligation; defined benefit plan refers to welfare after demission rather than defined drawing plan. In the report period, the Company mainly provides the following welfare after demission:

The Company pays basic endowment insurance organized and implemented by local labor and social security departments for employees, such welfare after demission is defined drawing plan. The Company pays endowment insurance premium every month to local management institution of basic endowment insurance based on the cardinal sum and proportion of basic endowment insurance. After retirement, local labor and social security departments are responsible for paying basic endowment insurance to the retired employees. During the periods when the employees provide service, the Company recognizes the amount payable calculated according to the above regulations as a liability and includes in the current profit and loss or the cost of relevant asset.

(3) Demission welfare

The Company gives compensation to relieve the labor relation with the employees before the labor contract expires or encourage the employees to voluntarily receive cut-down. The liabilities for the employee compensation arising from the demission welfare shall be determined on the following date and recorded into the current profit or loss, whichever is earlier: 1) When the company cannot withdraw the demission welfare provided due to the cancellation of the labor relation plan or job displacement suggestion unilaterally; 2) When the company confirms the cost or expenses related to the reorganization involving the payment of the demission welfare.

Demission welfare expected to be paid within one year as of the date of balance sheet date, shall be disclosed as current liability.

(4) Other long-term employee welfare

None

25. Estimated liabilities

When the obligation related to contingencies complies with the following conditions at the same time, an estimated liability is recognized: (1) The obligation is the current obligation assumed by the Company; (2) Implementing the obligation likely results in the flow-out of economic benefit; (3) The amount of obligation can be reliably calculated.

On the date of balance sheet date, estimated liabilities are initially recorded at the best estimate of the expenditure required to settle the current obligation and comprehensive consideration of contingency-related risk, uncertainty and time value of money.

If the total or part expenditure used to settle estimated liabilities is expected to be compensated by a third party, the amount of compensation is recognized individually when it is basically confirm that it can be received to the extent that the book value of estimated liabilities.

26. Share-based payments

None

27. Preferred shares, perpetual capital securities and other financial instruments

None

28. Revenue

The amount received shall be determined as per the fair value of the contracted price received or receivable in selling the commodities or providing labor service by this company in the routine operation activities. The income shall be listed as the net amount after deduction of sales allowance and sales return.

(1) Sales of goods

The operating revenue is recognized when the significant risks and rewards of product ownership have been transferred to the buyer, the Company maintains neither managerial right usually associated with ownership nor effective control over products sold, it is probable that the economic benefits will flow to the Company, and relevant revenue and costs can be calculated reliably. The Company's goods include hardware (software) products and software products researched and developed by the Company. Software products researched and developed by the Company refer to the software products which are certified by National Copyright Administration and have the copyright which is not transferred when the products are sold. The Company recognizes the operating revenue when the Company receives the confirmation of goods receipt and maintains neither managerial right nor effective control over products sold.

(2) Rendering of services

When the results of rendering of services can be reliably estimated, the service revenue will be recognized upon completion percentage method on the date of balance sheet date.

That the results of rendering of services can be reliably estimated refers to meeting the following conditions at the same time: ① The amount of revenue can be reliably calculated; ② relevant economic benefits can flow into the Company; ③ The project schedule can be reliably confirmed; ④ The cost occurred and to be occurred can be reliably calculated.

If the results of rendering of services cannot be reliably estimated, the service revenue will be recognized at the costs of services which have occurred and are expected to be compensated and included in the current expenses. If the occurred costs of services are expected not to be compensated, the service revenue will not be recognized.

The Company provides government, public utilities, customer in financial, energy and other industries with series of services with industry application software development as the core, covering IT infrastructure construction, system integration and system operating maintenance, usually including computer software, hardware products and relevant equipment installation, system integration as well as operation and maintenance services.

When the contract or agreement signed between the Company and customer covers sales of goods and rendering of services, if sales of goods and rendering of services can be distinguished and accounted individually, sales of goods and rendering of services are accounted respectively. If sales of goods and rendering of services cannot be distinguished because of the characteristics of business, they are recognized respectively according to the following conditions: A. As to sales of goods and rendering of services initiated and accomplished in the same accounting year, the revenue is recognized according to acceptance certificate of project when the project is completed, and the recognized amount is the total amount in final account for completed project or contract; B. If the project starts and completes in different fiscal years, and the results of project can be reliably estimated on the date of balance sheet date, the revenue is recognized as per the percentage of the project schedule, which is determined by the proportion of the actual occurred costs in the total estimated cost of the contract.

(3) Transfer of asset use rights

Interest income is calculated with effective interest rate and recognized on the date when other party uses cash and cash equivalents of the Company.

The income from operating lease is recognized with straight-line method during the lease term.

29. Government grants

(1) Judgment and accounting treatment methods of asset-related government grants

Asset-related government grants are recognized as a deferred income and allocated to current profit or loss over the expected useful life of the relevant asset by equal annual installments.

(2) Judgment and accounting treatment methods of income-related government grants

Income-related government grants are applied to reimbursement of related costs or losses in subsequent periods are recognized as deferred income and taken to current profit or loss for the period when the related costs are recognized. Government grants applied to reimbursement of related costs or losses already incurred are directly recognized in current profit or loss.

30. Deferred tax assets and deferred tax liabilities

Deferred tax assets or deferred tax liabilities are calculated based on the difference between the carrying amounts of the assets or liabilities and their tax bases (temporary differences). As to the deductible losses that can be used to deduct the taxable income in the following years in accordance with the provisions of the tax law, the corresponding deferred tax assets shall be confirmed. As to the temporary differences occurring in the initial confirmation of the goodwill, the corresponding deferred income tax liability shall not be confirmed. As to the temporary differences formed in the initial confirmation of the assets or liability occurring in the non-business combination transaction not affecting the accounting profit or the taxable income (or deductible loss), the corresponding deferred income tax assets and the deferred income tax liability shall not be confirmed. On the balance sheet day, the deferred income tax assets and deferred income tax liabilities shall be accounted at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

For the taxable temporary differences related to the subsidiaries, affiliated business and cooperative enterprises, deferred income tax liabilities shall be confirmed. If the investing enterprise can control the time of the reverse of temporary differences and the temporary differences are unlikely to be reversed in the excepted future, it shall not be recognized. For the deductible temporary difference related to the subsidiaries, affiliated business and cooperative enterprises, when it is likely to be reversed in the excepted future and can be used to write off the taxable temporary differences, the deferred tax assets shall be recognized.

The deferred tax assets shall be recognized no more than the taxable income used to write off the deductible temporary difference, the deductible losses and tax credits. On the date of balance sheet date, the Company checks the book value of deferred income tax assets, if the Company will not likely be able to obtain sufficient taxable income to deduct the benefit from deferred income tax assets, the book value of deferred income tax assets is written down. When the Company will likely be able to obtain sufficient taxable income, the written down amount shall be reversed.

When the following conditions are met at the same time, the net amount after writing off deferred income tax assets and deferred income tax liabilities is disclosed individually:

Deferred income tax assets and deferred income tax liabilities are related to income tax imposed by the same tax collection and management department over the same taxpayer in the Company, the taxpayer has the legal right to settle the current income tax assets and income tax liabilities at the net amount.

31. Lease*(1) Operating lease*

The rent expenditure for operational leasing shall be recorded into the related assets cost or the current profit and loss in the leasing period as per the method of lines. The initial direct costs shall be recorded into the current profit and loss. Contingent rentals shall be recorded into the current profit and loss on the actual occurring date.

(2) Financing leases

None

32. Other important accounting policies and accounting estimates

None

33. Changes in significant accounting policies and accounting estimates*(1) Changes in significant accounting policies*

Applicable Inapplicable

| Reasons and details of changes in accounting policies | Review/Approval Process | Notes |
|---|--|---|
| Before July 1, 2014, the Company has no control, common control or significant influences, and the fair value cannot be reliably calculated, equity investment is accounted and disclosed as long-term equity investment. | Approved by the twenty-seventh meeting of the fourth board of directors on October 28, 2014. | January 1, 2014, subtract: Long-term equity investment 15,000,000.00 Yuan, Add: Available-for-sale financial assets 15,000,000.00 Yuan. |

The Ministry of Finance newly issued the following accounting standards 2014: Accounting Standards for Business Enterprises No. 39 — Fair Value Calculation, Accounting Standards for Business Enterprises No. 40 — Joint Arrangements, Accounting Standards for Business Enterprises No. 41 — Disclosure of Interests in Other Entities, and revised the following accounting standards newly 2014: Accounting Standards for Business Enterprise No. 2 — Long-term Equity Investments, Accounting Standards for Business Enterprise No. 9 — Employee Compensation, Accounting Standards for Business Enterprise No. 30 — Presentation of Financial Statements, Accounting Standards for Business Enterprise No. 33 — Consolidated Financial Statements, and Accounting Standards for Business Enterprise No. 37 — Presentation of Financial Instruments. Starting from July 1st, 2014, the company adapts to following the above standards rather than Accounting Standards for Business Enterprise No. 37 — Presentation of Financial Instruments in the preparation of financial

statements for the fiscal year 2014 and adapts to following Accounting Standards for Business Enterprise No. 37 — Presentation of Financial Instruments in Annual Financial Statement in 2014.

(2) *Changes in significant accounting estimates*

Applicable Inapplicable

34. Other

Critical assumptions and uncertain factors used for significant accounting judgment and estimation

During adopting accounting policies, because of the uncertainties in business activities, the Company needs to make a judgment, estimation and assumption on the book value of items in financial statements which cannot be accurately calculated. Such judgment, estimation and assumption are based on the historical experiences of the management in the past, considering other relevant factors. Such judgment, estimation and assumption will affect the report amount of revenue, expense, assets and liabilities as well as the disclosure of contingent liabilities on the date of balance sheet date. However, the uncertainties in such estimation may result in significant adjustment of the book value of assets or liabilities which will be affected in the future.

The Company regularly checks the above judgment, estimation and assumption on the base of sustainable operation, so the change in accounting estimation only affects the period when the change happens, and the influence amount is recognized in the period when the change happens; if the change affects not only the period when the change happens but also future periods, the influence amount is recognized in the period when the change happens and future periods.

On the date of balance sheet date, the Company needs to make a judgment, estimation and assumption on items in financial statement in the following significant aspects:

(1) *Recognition of income — project schedule*

For industry solution and service contract project between the Company and the customers, if the project starts and completes in different fiscal year, and the results can be reliably estimated on the date of balance sheet date, the income is recognized as per the percentage of the project schedule, which is determined by the proportion of the actual occurred costs in the total estimated cost of the contract. The Company needs to make a significant judgment when determining the project schedule, total estimated cost of the contract and the recoverability of the contract. The management make the judgment based on historical experiences and work. The change in accounting estimation on total estimated cost of the contract and the results of contract may affect operating revenues, operating costs as well as profit and loss in the period when the change happens or future periods, and may constitute a significant influence.

(2) Provision for bad debt

According to accounting policies of accounts receivable, the Company accounts bad debt loss with allowance method. Accounts receivable is impaired based on the evaluation on the recoverability of accounts receivable. The management needs to make a judgment and estimation to determine whether accounts receivable are impaired. The difference between the actual result and original estimation will result in the book value of accounts receivable and the accrued or reversed provision for bad debt during the period when the estimation is changed.

(3) Provision for inventory depreciation

According to accounting policies of inventory, the Company accounts at the cost and net realizable value, whichever is the lower, for inventory with the cost higher than the net realizable value and old-fashioned and unsalable inventory, the provision for the loss on decline in value of inventory shall be make. The loss on decline in value of inventory and net realizable value are based on the evaluation on the vendibility of inventory and its net realizable value. The management shall make a judgment and estimation to determine the loss on decline in value of inventory on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventory and the effects of events occurring after the date of the balance sheet. The difference between the actual result and original estimation will result in the book value of inventory and the accrued or reversed provision for inventory during the period when the estimation is changed.

(4) Impairment of available-for-sale financial assets

The Company depends on the judgment and assumption to determine whether available-for-sale financial assets are impaired and whether impairment loss shall be recognized in income statement. When the management makes a judgment and assumption, the Company need to evaluate the degree to which the fair value of the investment is lower than its cost and the duration, financial condition of invested company and short-term business perspective, including industry situation, technological change, credit rating, default rate and the risk of the counterparty.

(5) Provision for non-financial non-current asset impairment

On the date of balance sheet date, the Company judges whether there are impairment signals of non-current assets rather than financial assets. For intangible assets with uncertain service life, in addition to impairment test once a year, the impairment test is carried out when there are impairment signals. Other non-current assets rather than financial assets, the impairment test is carried out when there are signals showing their book value cannot be recovered. When the book value of asset or asset unit is higher than it recoverable amount, that is the net amount after the fair value minus disposal expenses and the present value of future cash flow, whichever is the higher, the asset is impaired.

When the present value of future cash flow is estimated, the Company needs make a significant judgment on the output, selling price, relevant operating cost and discount rate used to calculate the present value for the asset (or asset unit). When estimating the

recoverable amount, the Company will use all available relevant data, including the prediction of the relevant output, selling price and relevant operating cost based on reasonable and supportable assumption.

The Company carries out impairment test at least once a year for goodwill, which needs to predict the present value of future cash flow of goodwill asset unit or asset unit portfolio. When predicting the present value of future cash flow, the Company needs to predict the cash flow generated from future asset unit or asset unit portfolio and select appropriate discount rate to determine the present value of future cash flow.

(6) Depreciation and amortization

After considering the residual value of fixed assets and intangible assets, the Company makes provision for depreciation and amortization with straight-line method within the service life. The Company regularly checks the service life to determine depreciation and amortization expenses recognized in each report period. The service life is determined by the Company based on previous experience of similar assets and combined with expected technology. If there is a significant change in pervious estimation, depreciation and amortization expenses will be adjusted in future periods.

(7) Development expenditure

When determining the amount of capitalization, the management needs to make an assumption on estimated future cash flow of relevant asset, applicable discount rate and estimated benefit periods.

(8) Deferred income tax assets

When the taxable profit is sufficient to deduct the loss, the Company will recognize deferred income tax assets based on all unutilized tax loss, for which the management of the Company need to make a good deal of judgment to estimate the time and amount of future taxable profit and combine tax planning strategy to determine the amount of deferred income tax assets to be recognized.

(9) Income tax

During the normal business activities, there are certain uncertainties for the final tax administration and calculation of part transactions. Whether part items can be disbursed before tax needs to be approved by the competent tax administration institution. If the final recognized results of such tax administration differs from initial estimated amount, the difference will influence the current income tax and deferred income tax during the final recognition period.

(10) Estimated liabilities

Based on contract terms, existing knowledge and historical experience, the Company makes corresponding provision for product quality guarantee, estimated contract loss, liquidated damages caused by delay in delivery and other estimations. When such contingencies form a

current obligation and implementing the current obligation may cause economic benefit to flow out the Company, the Company will recognize a estimated liabilities at the best estimate of the expenditure required to settle the current obligation. Estimated liabilities are recognized and recorded mainly depending on the judgment of the management. During the judgment, the Company needs to evaluate the risk, uncertainty, the time value of money and other factors related to such contingencies.

VI. TAX

1. Main tax types and tax rates

| Tax type | Basis of taxation | Tax rate |
|--|--|----------------------|
| VAT | Tax amount payable is calculated by taxable sales multiplied by applicable tax rate and deducted the current deductible income tax | 17%; 6% |
| Business tax | Taxable turnover | 3% |
| Urban maintenance and construction tax | Added-value tax and business tax paid | 7% |
| Enterprise income tax | Taxable income | 10%; 12.5%; 15%; 25% |

Entity with different tax rate of income tax

| Name of taxpayer | Tax rate of enterprise income tax |
|---|--------------------------------------|
| Taiji Computer Corporation Limited | 10% |
| Beijing Smartdot Science and Technology Ltd. | 10% |
| Beijing Smartdot Information Technology Ltd. | 12.5% |
| Nanjing Smartdot Information Technology Ltd. | 12.5% |
| Beijing Taiji Information System Technology Co., Ltd. | 15% |
| Other subsidiaries | 25% |

2. Tax preference

(1) Favorable income tax

- ① In accordance with Notification on Several Policies for Encouraging the Development of Software Industry and Integrated Circuit Industry Issued by the State Council (GF [2000] No. 18) and Notification on Policies for Corporate Income Tax to Further Encourage the Development of Software Industry and Integrate Circuit Industry Issued by Ministry of Finance and SAT (CS [2012] No. 27), the Company was recognized as a high-tech enterprise by Beijing Municipal Science & Technology Commission, Beijing Bureau of Finance, Beijing State Administration of Taxation and

Local Taxation Bureau, certificate No.: GF201111000964 in October, 2011, with effective period of 3 years, and in December, 2013, it was recognized as a key software manufacturing enterprise in the State planning in 2013-2014 jointly approved by NDRC, MIIT, Ministry of Finance, Commerce Department and SAT, certificate No.: R-2013-026, provided with preferential tax policy of 10% of enterprise income tax rate. Its subsidiary, Beijing Smartdot Science and Technology Ltd. enjoys the same tax rate, it was recognized as a high-tech enterprise in October 2011, certificate No.: GF201111000978, with effective period of 3 years; and in December 2013, it was recognized as a key software manufacturing enterprise in the State planning in 2013-2014, certificate No.: R-2013-064.

- ② Smartdot Donghe founded in 2010, a software enterprise recognized by Beijing Economic and information commission, certificate No. J R-2010-0615; Nanjing Smartdot founded in 2010, a software enterprise recognized by Jiangsu Economic and information commission, certificate No. S R-2012-A0140. In accordance with Notice of Ministry of Finance and SAT on Several Preferential Policies Related to Enterprise Income Tax (CS [2008]1), new software production enterprise in China, after affirmation, shall enjoy the former two-year income tax exemptions and later six-year halve since profit-making year, the income tax of Smartdot Donghe and Nanjing Smartdot is reduced by half in 2014, with applicable tax rate of 12.5%.
- ③ Beijing Taiji Information System Technology Co., Ltd., founded in October, 2011, is a high-tech enterprise approved by Beijing Municipal Science & Technology Commission, Beijing Bureau of Finance, Beijing State Administration of Taxation and Local Taxation Bureau, certificate No.: GF201111001778, with effective period of 3 years, and provided with preferential tax policy of 15% of enterprise income tax rate.

In accordance with the Administrative Measures for the Pre-tax Deduction of Enterprise Research and Development Expenses (Trial) (GSF [2008] No. 116), Notification on Pilot Policy for Additionally Calculating and Deducting Research and Development Expenses Related to National Innovation Model in Zhongguancun, Donghu, Zhangjiang Area and He-Wu-Beng Reform Testing Areas of Independent Innovation (IS [2013] No. 13) issued by Ministry of Finance and SAT, technological development expense arising from the development of new products, technologies and processes shall be deducted before tax, and the Company and Smartdot can additionally calculate and deduct the following expenditures in the calculation of the taxable income amount on the basis of 50% of the actual amount incurred.

(2) Refund of VAT

In accordance with Notification on Policies for VAT of Software Product issued by Ministry of Finance and SAT (CS [2011] No. 100), for the software self-developed by the Company, VAT is levied with the statutory tax rate of 17%, drawback policy of VAT is applied for the actual tax burden over 3%.

In accordance with Notification on Collecting VAT for Transportation Industry and Part Modern Service Industry in 8 Provinces and Cities Including Beijing jointly issued by Ministry of Finance and SAT (CS [2012] No. 71), taxpayer in the pilot is exempted from

VAT for providing technical transformation, technological development and relevant technology consulting and technical services. Since September 1, 2012, the Company, Smartdot, Taiji Information are exempted from VAT for providing technological development and relevant technology consulting and technical services.

In accordance with Replay about Exemption from VAT for Military Products Produced and Sold by Military Enterprise issued by Haidian District National Tax Bureau (HGSPF [2008] No. 05029), Taiji Information complies with the conditions of military enterprise and is exempted from VAT for producing and selling products complying with the document requirements.

3. Other

VII. NOTES TO THE ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENT

1. Cash on hand and in bank

Unit: Yuan

| Items | Ending balance | Beginning balance |
|----------------------|------------------------------|--------------------------------|
| Cash | 650,686.15 | 643,024.34 |
| Cash in bank | 930,299,080.06 | 1,178,804,157.55 |
| Other monetary funds | <u>61,090,031.28</u> | <u>42,298,355.45</u> |
| Total | <u><u>992,039,797.49</u></u> | <u><u>1,221,745,537.34</u></u> |

Other notes:

Other monetary funds include letter of guarantee, letter of credits, etc. The Company utilized in the end of year limited monetary funds 141,193,022.31 Yuan, of which the fixed-term (more than three months) deposit is 137,250,887.73 Yuan and the L/G deposit more than three months is 3,942,134.58 Yuan.

2. Financial assets which are recorded at their fair value and the variation of which is recorded into the profits and losses of the current period

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | 0.00 | 0.00 |

Other notes:

3. Derivative financial assets

Applicable Inapplicable

4. Notes receivable

(1) *Disclosure of notes receivable on classification*

Unit: Yuan

| Items | Ending balance | Beginning balance |
|------------------------|-----------------------------|-----------------------------|
| Bank's acceptance bill | 44,500,747.46 | 46,246,892.07 |
| Trade acceptance | <u>12,460,860.00</u> | <u>5,713,000.00</u> |
| Total | <u><u>56,961,607.46</u></u> | <u><u>51,959,892.07</u></u> |

(2) *Notes receivable which have been pledged at the end*

Unit: Yuan

| Items | Pledged amount at the end |
|--------------|--------------------------------------|
| Total | 0.00 |

(3) *Notes receivable has already endorsed or discounted at the end but not yet expired on the date of balance sheet date*

Unit: Yuan

| Items | Ending derecognized amount | Ending un-derecognized amount |
|--------------|---|--|
| Total | 0.00 | 0.00 |

(4) Notes transferred to accounts receivable because drawer of the notes fails to execute the contract or agreement

Unit: Yuan

| Items | Notes transferred to accounts receivable at the end |
|-------|---|
| Total | 0.00 |

Other note:

5. Accounts receivable

(1) Disclosure of accounts receivable on classification

Unit: Yuan

| Classification | Book balance | | Ending balance | | Book value | Book balance | | Beginning balance | | Book value |
|--|-------------------------|----------------|------------------------|-------------------------|-------------------------|-------------------------|----------------|------------------------|-------------------------|-------------------------|
| | Amount | Proportion | Provision for bad debt | | | Amount | Proportion | Provision for bad debt | | |
| | | | Amount | Proportion of provision | | | | Amount | Proportion of provision | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 1,616,159,127.74 | 100.00% | 126,403,074.40 | 100.00% | 1,489,756,053.34 | 1,241,937,731.42 | 100.00% | 101,421,481.80 | 100.00% | 1,140,516,249.62 |
| Total | <u>1,616,159,127.74</u> | <u>100.00%</u> | <u>126,403,074.40</u> | <u>100.00%</u> | <u>1,489,756,053.34</u> | <u>1,241,937,731.42</u> | <u>100.00%</u> | <u>101,421,481.80</u> | <u>100.00%</u> | <u>1,140,516,249.62</u> |

Accounts receivable with significant single amount and provision for bad debts individually at the end of the period:

Applicable Inapplicable

The accounts receivable accrued for provision of bad debt by age analysis method in:

Applicable Inapplicable

Unit: Yuan

| Age | Accounts receivable | Ending balance Provision for bad debt | Proportion of provision |
|------------------------------------|-------------------------|---|----------------------------|
| Within 1 year | | | |
| 0–6 months (including 6 months) | 882,687,159.38 | | |
| 7–12 months | <u>218,028,974.50</u> | <u>5,450,724.35</u> | 2.50% |
| Within 1 year | <u>1,100,716,133.88</u> | <u>5,450,724.35</u> | 2.50% |
| 1–2 years | 263,705,027.26 | 13,185,251.38 | 5.00% |
| 2–3 years | 123,575,766.36 | 18,536,364.94 | 15.00% |
| 3–4 year | 51,422,090.47 | 17,997,731.67 | 35.00% |
| 4–5 years | 27,535,538.56 | 22,028,430.85 | 80.00% |
| Over 5 years | <u>49,204,571.21</u> | <u>49,204,571.21</u> | 100.00% |
| Total | <u>1,616,159,127.74</u> | <u>126,403,074.40</u> | |

Details for confirmation of this portfolio:

The accounts receivable accrued for provision of bad debt by the percentage of balance method in portfolio:

Applicable Inapplicable

(2) *Bad debt recovery and bad debt allowance*

This year, the amount of bad debt allowance is 24,981,592.60 Yuan; and the amount of bad debt recovery is 0.00 Yuan. This year, significant bad debt recovery:

Unit: Yuan

| Name of company | Recovered amount | Recovery method |
|-----------------|------------------|-----------------|
| Total | 0.00 | — |

(3) *Write-off of bad debts occurred during this fiscal year*

Unit: Yuan

Items **Write-off amount**

Of which, details of writing off significant receivables:

Unit: Yuan

| Name of company | Nature of receivables | Write-off amount | Reason | Write-off procedure | Amount from associated transaction |
|------------------------|------------------------------|-------------------------|---------------|----------------------------|---|
| Total | — | 0.00 | — | — | — |

Details of writing off accounts receivable:

(4) *Top 5 other receivables sorted by ending balance of debtors*

The total amount of top 5 receivables sorted by ending balance of debtors is 171,922,739.10 Yuan, accounting for 10.64% of the total amount of ending balance of accounts receivable, the total amount of the corresponding accrual provision for bad debt at the end of period is 1,904,854.33 Yuan.

(5) *Accounts receivable derecognized because of transfer of financial assets*

(6) Amount of assets or liabilities for which accounts receivable is transferred but continue involve in

Other note:

6. Prepayments

(1) Disclosure of prepayments on age

Unit: Yuan

| Age | Ending balance | | Beginning balance | |
|---------------|-----------------------|------------|-----------------------|------------|
| | Amount | Proportion | Amount | Proportion |
| Within 1 year | 155,106,644.68 | 79.14% | 110,503,015.05 | 81.05% |
| 1-2 years | 18,742,319.53 | 9.56% | 21,554,282.33 | 15.81% |
| 2-3 years | 21,128,244.33 | 10.78% | 4,186,973.62 | 3.07% |
| Over 3 years | <u>1,014,048.82</u> | 0.52% | <u>101,184.50</u> | 0.07% |
| Total | <u>195,991,257.36</u> | | <u>136,345,455.50</u> | |

Details for not settling the significant prepayment with age over 1 year in time:

The prepayment with age over 1 year mainly is the purchase cost to be settled for unfinished project.

(2) Top 5 ending balance of prepayments sorted by the unit prepaid

The total amount of top 5 ending balance of prepayments is 103,039,625.29 Yuan, accounting for 52.57% of total ending balance of prepayments.

Other note:

7. Interest receivable*(1) Disclosure of interest receivable on classification**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------------|----------------------------|----------------------------|
| Fixed time deposit | <u>7,034,544.96</u> | <u>3,618,175.74</u> |
| Total | <u><u>7,034,544.96</u></u> | <u><u>3,618,175.74</u></u> |

(2) Significant overdue interests

| Borrowing unit | Ending balance | Overdue time | Overdue reason | Whether impairment happens and the base of judgment |
|-----------------------|-----------------------|---------------------|-----------------------|--|
| Total | 0.00 | — | — | — |

Other note:

8. Dividends receivable*(1) Dividends receivable**Unit: Yuan*

| Items (or the invested unit) | Ending balance | Beginning balance |
|-------------------------------------|-----------------------|--------------------------|
| Total | 0.00 | 0.00 |

*(2) Significant dividends receivable with age over 1 year**Unit: Yuan*

| Items (or the invested unit) | Ending balance | Age | Reason of unrecovered amount | Whether impairment happens and the base of judgment |
|-------------------------------------|-----------------------|------------|-------------------------------------|--|
| Total | 0.00 | — | — | — |

Other note:

9. Other receivables

(1) Disclosure of other receivables on classification

Unit: Yuan

| Classification | Book balance | | Ending balance | | | Book balance | | Beginning balance | | |
|--|-----------------------|----------------|------------------------|---------------|-----------------------|-----------------------|----------------|------------------------|---------------|-----------------------|
| | Amount | Proportion | Provision for bad debt | | Book value | Amount | Proportion | Provision for bad debt | | Book value |
| | | | Amount | Proportion | | | | Amount | Proportion | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 195,196,079.41 | 100.00% | 28,246,984.02 | 14.47% | 166,949,095.39 | 165,187,793.55 | 100.00% | 24,213,376.42 | 14.66% | 140,974,417.13 |
| Total | 195,196,079.41 | 100.00% | 28,246,984.02 | 14.47% | 166,949,095.39 | 165,187,793.55 | 100.00% | 24,213,376.42 | 14.66% | 140,974,417.13 |

Accounts receivable with significant single amount and provision for bad debts individually at the end of the period:

Applicable Inapplicable

The accounts receivable accrued for provision of bad debt by age analysis method in portfolio:

Applicable Inapplicable

Unit: Yuan

| Age | Ending balance | | Proportion of provision |
|---------------------------------|-----------------------|------------------------|-------------------------|
| | Other receivables | Provision for bad debt | |
| Within 1 year | | | |
| 0–6 months (including 6 months) | 83,756,183.58 | 2,093,904.58 | 2.50% |
| 7–12 months | 17,659,367.62 | 441,484.20 | 2.50% |
| Sub-total (within 1 year) | 101,415,551.20 | 2,535,388.78 | 2.50% |
| 1–2 years | 26,212,486.91 | 1,310,624.35 | 5.00% |
| 2–3 years | 14,495,281.09 | 2,174,292.17 | 15.00% |
| 3–4 years | 5,428,377.73 | 1,899,932.21 | 35.00% |
| 4–5 years | 4,890,315.90 | 3,912,252.72 | 80.00% |
| Over 5 years | 16,414,493.79 | 16,414,493.79 | 100.00% |
| Total | 168,856,506.62 | 28,246,984.02 | |

Details for confirmation of this portfolio:

The accounts receivable accrued for provision of bad debt by the percentage of balance method in portfolio:

Applicable Inapplicable

The accounts receivable accrued for provision of bad debt by other method in portfolio:

Applicable Inapplicable

| Name of portfolio | Other receivables | Ending balance Provision for bad debt | Proportion of provision |
|-------------------|-----------------------------|---|----------------------------|
| Nature portfolio | <u>26,339,572.79</u> | | |
| Total | <u><u>26,339,572.79</u></u> | | |

(2) *Bad debt recovery and bad debt allowance*

This year, the amount of bad debt allowance is 4,033,607.60 Yuan; and the amount of bad debt recovery is 0.00 Yuan. This year, significant bad debt recovery:

Unit: Yuan

| Name of company | Recovered amount | Recovery method |
|-----------------|------------------|-----------------|
| Total | 0.00 | — |

(3) *Details of writing off other receivables*

Unit: Yuan

| Items | Write-off amount |
|-------|------------------|
|-------|------------------|

Of which, details of writing off significant receivables:

Unit: Yuan

| Name of company | Nature of other receivable | Write-off amount | Reason | Write-off procedure | Amount from associated transaction |
|-----------------|----------------------------|------------------|--------|---------------------|------------------------------------|
| Total | — | 0.00 | — | — | — |

Details for writing off other accounts receivable:

(4) Information for other accounts receivable classified by nature

Unit: Yuan

| Nature | Ending book balance | Beginning book balance |
|------------------|------------------------------|------------------------------|
| Nature portfolio | 26,339,572.79 | 11,502,150.53 |
| Age portfolio | <u>168,856,506.62</u> | <u>153,685,643.02</u> |
| Total | <u><u>195,196,079.41</u></u> | <u><u>165,187,793.55</u></u> |

(5) Information for top 5 ending balance of other accounts receivable sorted by the borrowers

Unit: Yuan

| Name of company | Nature | Ending balance | Age | Proportion in total ending balance of other accounts receivable | Ending balance of provision for bad debt |
|---|-------------------|-----------------------------|----------------|---|--|
| Beijing Information Resource Management Center | Performance bond | 10,229,604.00 | Within 1 year | 5.24% | 255,740.10 |
| Dongcheng District Public Security Bureau, Beijing Municipal Public Security Bureau | Performance bond | 4,808,996.70 | Within 2 years | 2.46% | 217,789.86 |
| China Crconic Import and Export Corporation | Guarantee deposit | 4,443,603.75 | Over 5 years | 2.28% | 4,443,603.75 |
| Beijing iTruschina E-commerce Service | Guarantee deposit | 4,098,850.00 | Within 1 year | 2.10% | 102,471.25 |
| Shanghai High People's Court | Performance bond | <u>3,875,358.00</u> | Within 5 years | <u>1.99%</u> | <u>926,955.80</u> |
| Total | — | <u><u>27,456,412.45</u></u> | — | <u><u>14.07%</u></u> | <u><u>5,946,560.76</u></u> |

*(6) Accounts receivables involving in government grants**Unit: Yuan*

| Name of company | Name of government grant project | Ending balance | Ending age | Estimated recovery time, amount and base |
|-----------------|----------------------------------|----------------|------------|--|
| Total | — | 0.00 | — | — |

*(7) Accounts receivable derecognized because of transfer of financial assets**(8) Amount of assets or liabilities for which accounts receivable is transferred but continue involve in*

Other note:

10. Inventories*(1) Classification of inventories**Unit: Yuan*

| Items | Ending balance | | | Beginning balance | | |
|--|-----------------------|----------------------------|-----------------------|-----------------------|----------------------------|-----------------------|
| | Book balance | Provision for depreciation | Book value | Book balance | Provision for depreciation | Book value |
| Raw materials | 352,475.79 | 352,475.79 | 0.00 | 997,888.66 | 997,888.66 | 0.00 |
| Goods in process | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Finished goods | 93,870,734.70 | 2,640,421.37 | 91,230,313.33 | 106,083,203.15 | 2,640,421.37 | 103,442,781.78 |
| Revolving materials | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Consumptive | | | | | | |
| biological assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Assets which are finished but not settled in construction contract | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Outgoing goods | 10,059,744.36 | 1,230,857.23 | 8,828,887.13 | 10,111,066.40 | 1,230,857.23 | 8,880,209.17 |
| Unfinished items | <u>3,130,710.22</u> | <u>—</u> | <u>3,130,710.22</u> | <u>585,141.70</u> | <u>—</u> | <u>585,141.70</u> |
| Total | <u>107,413,665.07</u> | <u>4,223,754.39</u> | <u>103,189,910.68</u> | <u>117,777,299.91</u> | <u>4,869,167.26</u> | <u>112,908,132.65</u> |

*(2) Provision for depreciation of inventory**Unit: Yuan*

| Items | Beginning balance | Increase in 2014 | | Decrease in 2014 | | Ending balance |
|--|----------------------|------------------|-------|--------------------------|-------|---------------------|
| | | Provision | Other | Reversal or write-off | Other | |
| Raw materials | 997,888.66 | | | 645,412.87 | | 352,475.79 |
| Goods in process | 0.00 | | | | | 0.00 |
| Finished goods | 2,640,421.37 | | | | | 2,640,421.37 |
| Revolving materials | 0.00 | | | | | 0.00 |
| Consumptive biological assets | 0.00 | | | | | 0.00 |
| Assets which are finished but not settled in construction contract | 0.00 | | | | | 0.00 |
| Outgoing goods | <u>1,230,857.23</u> | | | | | <u>1,230,857.23</u> |
| Total | <u>4,869,167.26</u> | | | <u>645,412.87</u> | | <u>4,223,754.39</u> |

*(3) Details of the capitalization amount of borrowing costs included in the ending balance of inventories**(4) Assets which are finished but not settled in construction contract**Unit: Yuan*

| Items | Amount |
|--|--------|
| Assets which are finished but not settled in construction contract | 0.00 |
| Other note: | |

11. Assets classified as held for sale*Unit: Yuan*

| Items | Ending book value | Fair value | Estimated disposal costs | Estimated disposal time |
|--------------|--------------------------|-------------------|---------------------------------|--------------------------------|
| Total | 0.00 | 0.00 | 0.00 | — |

Other note:

12. Non-current assets due within one year*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------|-----------------------|--------------------------|
| Total | 0.00 | 0.00 |

Other note:

13. Other current assets*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|----------------|----------------------------|----------------------------|
| Tax deductible | <u>4,031,734.24</u> | <u>4,063,963.31</u> |
| Total | <u><u>4,031,734.24</u></u> | <u><u>4,063,963.31</u></u> |

Other note:

14. Available-for-sale financial assets*(1) Information for available-for-sale financial assets**Unit: Yuan*

| Items | Ending balance | | | Beginning balance | | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Book balance | Impairment provision | Book value | Book balance | Impairment provision | Book value |
| Available-for-sale debt instrument: | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Available-for-sale equity instrument | 20,220,000.00 | 5,220,000.00 | 15,000,000.00 | 20,220,000.00 | 5,220,000.00 | 15,000,000.00 |
| Accounted at fair value | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Accounted at cost | <u>20,220,000.00</u> | <u>5,220,000.00</u> | <u>15,000,000.00</u> | <u>20,220,000.00</u> | <u>5,220,000.00</u> | <u>15,000,000.00</u> |
| Total | <u>20,220,000.00</u> | <u>5,220,000.00</u> | <u>15,000,000.00</u> | <u>20,220,000.00</u> | <u>5,220,000.00</u> | <u>15,000,000.00</u> |

*(2) Available-for-sale financial assets accounted at fair value at the end of accounting period**Unit: Yuan*

| Classification of financial assets available for sale | Cost of equity instrument/ amortized cost of debt instrument | Fair value | Fair value change recorded into other accumulated income | Provision for impairment loss |
|---|---|------------|--|-------------------------------|
| | | | | |

*(3) Available-for-sale financial assets accounted at cost at the end of accounting period**Unit: Yuan*

| The invested unit | Book balance | | | Impairment provision | | | | The end of the period | Proportion of shares in the invested company | Cash bonus in 2014 |
|---|-----------------------------|------------------|------------------|-----------------------|-----------------------------|------------------|------------------|-----------------------|--|--------------------|
| | The beginning of the period | Increase in 2014 | Decrease in 2014 | The end of the period | The beginning of the period | Increase in 2014 | Decrease in 2014 | | | |
| CET Xi'an Information Industry Park Development Co., Ltd. | 8,000,000.00 | | | 8,000,000.00 | — | | | — | 10.00% | — |
| Beijing Taiji Vision Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | 5,000,000.00 | | | 5,000,000.00 | 20.00% | — |
| Sanxia Hi-Tech Information Technology Co., Ltd. | 1,000,000.00 | | | 1,000,000.00 | — | | | — | 10.00% | 103,247.68 |
| Beijing Yuchang Pawning Co., Ltd. | 1,000,000.00 | | | 1,000,000.00 | — | | | — | 5.56% | — |
| Shanghai Taiji Huafang Information System Co., Ltd. | 220,000.00 | | | 220,000.00 | 220,000.00 | | | 220,000.00 | 11.00% | — |
| Total | <u>20,220,000.00</u> | | | <u>20,220,000.00</u> | <u>5,220,000.00</u> | | | <u>5,220,000.00</u> | — | <u>103,247.68</u> |

(4) Change of available-for-sale financial assets in report period

Unit: Yuan

| Classification of financial assets available for sale | Beginning balance of provision for impairment loss | Provision in 2014 | Include: transferred from other comprehensive income | Decrease in 2014 | Include: reversed fair value which is recovered after the report period | Ending balance of provision for impairment loss |
|---|--|-------------------|--|------------------|---|---|
| Equity instrument available for sale | 5,220,000.00 | | | | | 5,220,000.00 |
| Debt instrument available for sale | <u>0.00</u> | | | | | <u>0.00</u> |
| Total | <u>5,220,000.00</u> | | | | | <u>5,220,000.00</u> |

(5) Description of slump or continuous falling of fair value of available-for-sale equity tool in the end of period

Unit: Yuan

| Equity instrument available for sale items | Cost of investment | Ending fair value | Falling percentage of fair value in relative to cost (%) | Continuous falling period (months) | Amount of provision of impairment | Reason for not making provision for impairment loss |
|--|--------------------|-------------------|--|------------------------------------|-----------------------------------|---|
| | | | | | | |

Other note

15. Held-to-maturity investment

(1) Information for held-to-maturity investment

Unit: Yuan

| Items | Ending balance | | | Beginning balance | | |
|-------|----------------|-------------|-------------|-------------------|----------------------|-------------|
| | Book balance | Impairment | Book value | Book balance | Impairment provision | Book value |
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

(2) Significant held-to-maturity investment at the end

Unit: Yuan

| Bond items | Face value | Nominal interest rate | Effective interest rate | Maturity date |
|------------|-------------|-----------------------|-------------------------|---------------|
| Total | <u>0.00</u> | <u>—</u> | <u>—</u> | <u>—</u> |

(3) Held-to-maturity investment reclassified in the report period

Other note

16. Long-term receivables

(1) Information for long-term receivables

Unit: Yuan

| Items | Book balance | Ending balance Provision for bad debt | Book value | Book balance | Beginning balance Provision for bad debt | Book value | Range of discount rate |
|-------|--------------|---|-------------|--------------|--|-------------|---------------------------|
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>—</u> |

(2) Long-term accounts receivable derecognized because of transfer of financial assets

(3) Amount of assets or liabilities for which long-term accounts receivable is transferred but continue involve in

Other note

17. Long-term equity investment*Unit: Yuan*

| The invested unit | Beginning balance | Additional investment | Negative investment | Profit and loss on investments under equity method | Increase/decrease in current period | | | | Other | Ending balance | Impairment provision Ending balance |
|---|-----------------------|-----------------------|---------------------|--|--------------------------------------|------------------------|------------------------------------|----------------------|-------|-----------------------|-------------------------------------|
| | | | | | Adjusting other comprehensive income | Change in other equity | Declaring cash dividends or profit | Impairment provision | | | |
| I. Cooperative enterprises | | | | | | | | | | | |
| Beijing Taiji AoTian Technology Co., Ltd. | 59,978,481.96 | | | (25,013.96) | | | | | | 59,953,468.00 | |
| Subtotal | 59,978,481.96 | | | (25,013.96) | | | | | | 59,953,468.00 | |
| II. Affiliated business | | | | | | | | | | | |
| Beijing Kingbase Information Technology Limited Liability Company | 50,399,364.98 | | | 2,023,998.24 | | | | | | 52,423,363.22 | |
| Sinkiang Intelligence R&D Center | | 400,000.00 | | (5,439.77) | | | | | | 394,560.23 | |
| Subtotal | <u>50,399,364.98</u> | <u>400,000.00</u> | | <u>2,018,558.47</u> | | | | | | <u>52,817,923.45</u> | |
| Total | <u>110,377,846.94</u> | <u>400,000.00</u> | | <u>1,993,544.51</u> | | | | | | <u>112,771,391.45</u> | |

Other note

18. Investment property*(1) Investment property accounted with cost accounting model* Applicable Inapplicable*(2) Investment property accounted at fair value accounting model* Applicable Inapplicable*(3) Information for investment property without proper ownership certificate**Unit: Yuan*

| Items | Book value | Reason |
|-------|------------|--------|
|-------|------------|--------|

Other note

19. Fixed assets*(1) Information for fixed assets**Unit: Yuan*

| Items | Houses and buildings | Machinery and equipment | Electronic equipment | Transport equipment | Other | Total |
|------------------------------|----------------------|-------------------------|----------------------|---------------------|-------|---------------|
| 1. Beginning balance | 1,166,242.10 | 665,990.00 | 35,505,134.79 | 19,443,328.47 | | 56,780,695.36 |
| 2. Increase in 2014 | | | 9,915,720.18 | 1,345,352.76 | | 11,261,072.94 |
| (1) Purchase | | | 9,915,720.18 | 1,345,352.76 | | 11,261,072.94 |
| 3. Decrease in 2014 | | | 833,426.62 | 1,800,964.00 | | 2,634,390.62 |
| (1) Disposal or obsolescence | | | 833,426.62 | 1,800,964.00 | | 2,634,390.62 |
| 4. Ending balance | 1,166,242.10 | 665,990.00 | 44,587,428.35 | 18,987,717.23 | | 65,407,377.68 |
| 1. Beginning balance | 286,895.04 | 632,690.50 | 18,912,288.24 | 8,257,284.18 | | 28,089,157.96 |
| 2. Increase in 2014 | 27,989.76 | | 5,457,580.72 | 1,722,603.70 | | 7,208,174.18 |
| (1) Provision | 27,989.76 | | 5,457,580.72 | 1,722,603.70 | | 7,208,174.18 |
| 3. Decrease in 2014 | | | 789,676.09 | 1,214,596.76 | | 2,004,272.85 |
| (1) Disposal or obsolescence | | | 789,676.09 | 1,214,596.76 | | 2,004,272.85 |
| 4. Ending balance | 314,884.80 | 632,690.50 | 23,580,192.87 | 8,765,291.12 | | 33,293,059.29 |
| 1. Ending book value | 851,357.30 | 33,299.50 | 21,007,235.48 | 10,222,426.11 | | 32,114,318.39 |
| 2. Beginning book value | 879,347.06 | 33,299.50 | 16,592,846.55 | 11,186,044.29 | | 28,691,537.40 |

*(2) Information for temporarily idle fixed assets**Unit: Yuan*

| Items | Original book value | Accumulated depreciation | Impairment provision | Book value | Note |
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|-------------|
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|-------------|

*(3) Information for fixed assets acquired by financial lease**Unit: Yuan*

| Items | Original book value | Accumulated depreciation | Impairment provision | Book value |
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|

*(4) Information for fixed assets acquired by operating lease**Unit: Yuan*

| Items | Ending book value |
|--------------|--------------------------|
|--------------|--------------------------|

*(5) Information for fixed assets without proper ownership certificate**Unit: Yuan*

| Items | Book value | Reason |
|--------------|-------------------|---------------|
|--------------|-------------------|---------------|

Other note

20. Construction in progress*(1) Information for construction in progress**Unit: Yuan*

| Items | Ending balance | | Beginning balance | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Book balance | Impairment provision | Book value | Impairment provision |
| Cloud computing center base construction project of Taiji | <u>17,535,085.09</u> | | <u>17,535,085.09</u> | <u>5,669,753.24</u> |
| Total | <u>17,535,085.09</u> | | <u>17,535,085.09</u> | <u>5,669,753.24</u> |

*(2) Schedule in major constructions in progress**Unit: Yuan*

| Name of project | Budget | Beginning balance | Increase in 2014 | Transfer to fixed Assets in 2014 | Other decrease in 2014 | Ending book balance | Proportion of project investment in budget (%) | Schedule of project | Accumulated capitalization amount of interest | Including: capitalization amount of interest in 2014 | Capitalization rate of interest in 2014 (%) | Fund source |
|---|-----------------------|---------------------|----------------------|----------------------------------|------------------------|---------------------|--|---------------------|---|--|---|-------------|
| | | | | | | | | | | | | |
| Cloud computing center base construction project of Taiji | <u>864,352,700.00</u> | <u>5,669,753.24</u> | <u>11,865,331.85</u> | | | | 2.03% | 10% | | | | Other |
| Total | <u>864,352,700.00</u> | <u>5,669,753.24</u> | <u>11,865,331.85</u> | | | | | | — | — | | — |

*(3) Information for impairment provision of construction in progress in 2014**Unit: Yuan*

| Items | Ending balance | Reason for provision |
|------------|----------------|----------------------|
| Other note | | |

21. Engineering materials*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | 0.00 | 0.00 |

Other note:

22. Fixed assets liquidation*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

23. Productive biological assets*(1) Productive biological assets accounted with cost accounting model* Applicable Inapplicable*(2) Productive biological assets accounted with fair value accounting model* Applicable Inapplicable**24. Oil and gas assets** Applicable Inapplicable**25. Intangible assets***(1) Information for intangible assets**Unit: Yuan*

| Items | Land use right | Patent right | Non-patented technology | Other | Total |
|-------------------------|----------------|--------------|-------------------------|---------------|----------------|
| 1. Beginning balance | 431,310,000.00 | | | 58,254,312.19 | 489,564,312.19 |
| 2. Increase in 2014 | 44,606,981.00 | | | 24,273,647.81 | 68,880,628.81 |
| (1) Purchase | 44,606,981.00 | | | 5,029,999.92 | 49,636,980.92 |
| (2) Internal R&D | | | | 19,243,647.89 | 19,243,647.89 |
| 4. Ending balance | 475,916,981.00 | | | 82,527,960.00 | 558,444,941.00 |
| 1. Beginning balance | 6,469,650.00 | | | 8,579,606.23 | 15,049,256.23 |
| 2. Increase in 2014 | 10,187,444.34 | | | 12,052,460.18 | 22,239,904.52 |
| (1) Provision | 10,187,444.34 | | | 12,052,460.18 | 22,239,904.52 |
| 4. Ending balance | 16,657,094.34 | | | 20,632,066.41 | 37,289,160.75 |
| 1. Ending book value | 459,259,886.66 | | | 61,895,893.59 | 521,155,780.25 |
| 2. Beginning book value | 424,840,350.00 | | | 49,674,705.96 | 474,515,055.96 |

Intangible assets formed by internal R&D at the end of period accounts for 11.49% of the balance of intangible assets.

(2) Information for land use right without proper ownership certificate

Unit: Yuan

Items

Book value

Reason

Other note:

26. Development expenditures

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | | Decrease in 2014 | | Other | Ending balance |
|--|---------------------|-----------------------------------|-------|---------------------------------|---|-------|----------------------|
| | | Internal development expenditures | Other | Recognized as intangible assets | Included into the current profit and loss | | |
| TJHL | 505,600.55 | 6,128,287.61 | | | | | 6,633,888.16 |
| New data center visualized operation and maintenance management system | 1,302,208.67 | 4,902,780.61 | | 6,204,989.28 | | | |
| WZPT V4.0 | | 9,515,839.34 | | 9,515,839.34 | | | |
| MMPJ V2.0 | | 834,252.41 | | 834,252.41 | | | |
| JDZK V3.0 | | 2,688,566.86 | | 2,688,566.86 | | | |
| JDTZ V4.0 | | 720,238.74 | | | 720,238.74 | | |
| R&D of safety management platform based on intelligent analysis | 573,816.35 | 1,787,463.01 | | | | | 2,361,279.36 |
| GRC control and management system kit | 4,953,969.79 | 15,293,678.31 | | | | | 20,247,648.10 |
| HDNBJJ-R&D of IT management system based on basic regulations on internal company control | | 12,342,869.76 | | | 12,342,869.76 | | |
| JJXM-modern service industry HDP05030010V1 — R&D and application of control system oriented for group customer mobile terminal level-to-level administration | | 1,329,225.90 | | | 1,329,225.90 | | |
| ZXVG-Zhanxing achievement transformation base construction — private cloud platform development and Industrialization oriented for group enterprise collaboration application | | 1,016,562.34 | | | 1,016,562.34 | | |
| HUIXIN-Huixin enterprise integration communication software system V5.0 | | 332,035.78 | | | 332,035.78 | | |
| Technological breakthrough and application relating to extraction and comparison of digital content characteristics | | 1,732,620.39 | | | 1,732,620.39 | | |
| Press and publication key scientific project digital right management technology | | 475,989.13 | | | 475,989.13 | | |
| Platform construction and demonstration application of key technology research and development and management service of digital copyright oriented for socialization creation | | 306,313.65 | | | 306,313.65 | | |
| Other R&D projects | | 1,706,448.76 | | | 1,706,448.76 | | |
| Total | <u>7,335,595.36</u> | <u>67,726,616.49</u> | | <u>19,243,647.89</u> | <u>26,575,748.34</u> | | <u>29,242,815.62</u> |

Other note:

27. Goodwill*(1) Original book value of goodwill**Unit: Yuan*

| Name of investee or the items that form into goodwill | Beginning balance | Increase in 2014 | | Decrease in 2014 | | Ending balance |
|---|-----------------------|--------------------------------|-------|------------------|-------|-----------------------|
| | | Formed by business combination | Other | Disposal | Other | |
| Beijing Smartdot Science and Technology Ltd. | <u>374,336,612.48</u> | | | | | <u>374,336,612.48</u> |
| Total | <u>374,336,612.48</u> | | | | | <u>374,336,612.48</u> |

*(2) Provision for goodwill impairment**Unit: Yuan*

| Name of investee or the items that form into goodwill | Beginning balance | Increase in 2014 | | Decrease in 2014 | | Ending balance |
|---|-------------------|------------------|-------------|------------------|-------------|----------------|
| | | Provision | Other | Disposal | Other | |
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

Goodwill impairment test, parameters and recognition method of impairment loss of goodwill:

Other note:

28. Long-term unamortized expenses

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | Amount amortized this period | Other deduction | Ending balance |
|---|-----------------------------|--------------------------|------------------------------|-----------------|-----------------------------|
| Use right of Fangxing Building | 1,952,870.52 | | 71,665.08 | | 1,881,205.44 |
| Charge for use of 12/F, Taijing Building | 5,855,555.68 | | 283,333.29 | | 5,572,222.39 |
| Charge for use of No.2 garage | 932,500.30 | | 373,000.00 | | 559,500.30 |
| Taiyue Garden decoration | 401,884.47 | | 133,961.52 | | 267,922.95 |
| Taiji Building decoration | 257,968.76 | | 103,187.40 | | 154,781.36 |
| Decoration of General Staff 4th Department | 712,627.36 | | 181,947.36 | | 530,680.00 |
| Decoration of Lanhai Building | | 176,506.00 | 53,932.36 | | 122,573.64 |
| Decoration fee relating to Beijing Smartdot Technology Co., Ltd. Technology | 1,933,979.63 | | 828,848.53 | | 1,105,131.10 |
| Decoration fee relating to Shenzhen Office | <u>101,305.14</u> | | <u>101,305.14</u> | | |
| Total | <u><u>12,148,691.86</u></u> | <u><u>176,506.00</u></u> | <u><u>2,131,180.68</u></u> | | <u><u>10,194,017.18</u></u> |

Other note:

29. Deferred income tax assets/Deferred income tax liabilities*(1) Deferred income tax assets without writing-off**Unit: Yuan*

| Items | Ending balance | | Beginning balance | |
|--------------------------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
| | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets |
| Provision for asset impairment | 159,751,580.12 | 23,624,197.23 | 130,688,356.61 | 19,124,281.32 |
| Provision for inventory depreciation | 4,223,754.39 | 633,563.16 | 4,869,167.26 | 730,375.09 |
| Amortization of intangible assets | 9,007,213.79 | 1,239,629.15 | 3,485,036.53 | 469,442.50 |
| Deferred income | 27,023,637.68 | 3,524,779.20 | 21,979,810.18 | 2,414,363.47 |
| Accrued expenses | <u>15,955,182.19</u> | <u>1,595,518.22</u> | <u>16,911,280.66</u> | <u>1,691,128.07</u> |
| Total | <u><u>215,961,368.17</u></u> | <u><u>30,617,686.96</u></u> | <u><u>177,933,651.24</u></u> | <u><u>24,429,590.45</u></u> |

*(2) Deferred income tax liabilities without writing-off**Unit: Yuan*

| Items | Ending balance | | Beginning balance | |
|----------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Taxable temporary differences | Deferred income tax liabilities | Taxable temporary differences | Deferred income tax liabilities |
| Added value of assets evaluation | <u>2,768,242.20</u> | <u>276,824.22</u> | <u>3,460,302.80</u> | <u>346,030.28</u> |
| Total | <u><u>2,768,242.20</u></u> | <u><u>276,824.22</u></u> | <u><u>3,460,302.80</u></u> | <u><u>346,030.28</u></u> |

*(3) Net amount of deferred income tax asset and deferred income tax liability after writing-off**Unit: Yuan*

| Items | Deferred income tax assets and liabilities after writing-off at the end of period | Ending balance of deferred income tax assets or liabilities after writing-off | Written-off amount of deferred income tax assets and liabilities at the beginning of period | Beginning balance of deferred income tax assets or liabilities after writing-off |
|---------------------------------|---|---|---|--|
| Deferred income tax assets | | 30,617,686.96 | | 24,429,590.45 |
| Deferred income tax liabilities | | 276,824.22 | | 346,030.28 |

*(4) Details of unrecognized deferred income tax assets**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|----------------------------------|-----------------------------|----------------------------|
| Deductable temporary differences | 689,600.38 | 166,501.60 |
| Deductable loss | <u>13,070,654.44</u> | <u>3,383,362.08</u> |
| Total | <u><u>13,760,254.82</u></u> | <u><u>3,549,863.68</u></u> |

*(5) Deductible loss of unconfirmed deferred income tax assets which will be maturity in the following year:**Unit: Yuan*

| Year | Ending balance | Beginning balance | Note |
|-------------|-----------------------------|----------------------------|-------------|
| 2015 | 78,847.45 | 78,847.45 | |
| 2016 | — | — | |
| 2017 | 12,629.92 | 12,629.92 | |
| 2018 | 3,291,884.71 | 3,291,884.71 | |
| 2019 | <u>9,687,292.36</u> | <u>—</u> | |
| Total | <u><u>13,070,654.44</u></u> | <u><u>3,383,362.08</u></u> | — |

Other note:

30. Other non-current assets*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------|-----------------------|--------------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other note:

31. Short-term loans*(1) Classification of short-term loans**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|----------------|-----------------------------|-----------------------------|
| Debt of credit | <u>35,000,000.00</u> | <u>25,000,000.00</u> |
| Total | <u><u>35,000,000.00</u></u> | <u><u>25,000,000.00</u></u> |

Details for classification of short-term loans:

(2) Information for short-term loans overdue

This year, the total amount of short-term loans overdue is 0.00 Yuan, including significant short-term loans overdue:

Unit: Yuan

| Borrowing unit | Ending balance | Lending rate | Overdue time | Overdue rate |
|-----------------------|-----------------------|---------------------|---------------------|---------------------|
| Total | <u><u>0.00</u></u> | — | — | — |

Other note:

32. Financial liabilities accounted at fair value with change included in the current profit and loss*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------|-----------------------|--------------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other note:

33. Derivative financial liabilities

Applicable Inapplicable

34. Notes payable*Unit: Yuan*

| Type | Ending balance | Beginning balance |
|------------------|-----------------------------|------------------------------|
| Trade acceptance | 26,604,061.60 | 62,812,902.98 |
| Bank acceptance | <u>24,290,712.25</u> | <u>59,203,758.68</u> |
| Total | <u><u>50,894,773.85</u></u> | <u><u>122,016,661.66</u></u> |

The total notes payable overdue is 0.00 Yuan in this year.

35. Accounts payable*(1) Disclosure of accounts payable**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|------------------------------------|------------------------------|------------------------------|
| Goods amount payable (operational) | 513,578,001.23 | 412,382,640.06 |
| Service fee payable (operational) | <u>242,786,563.97</u> | <u>231,266,445.06</u> |
| Total | <u><u>756,364,565.20</u></u> | <u><u>643,649,085.12</u></u> |

*(2) Significant accounts payable with age over 1 year**Unit: Yuan*

| Items | Ending balance | Reason of un-repaid or carried forward |
|---|-----------------------------|---|
| Hangzhou H3C Technology Co. | 9,839,428.05 | Unfinished project |
| Beijing Accellence Tech Limited Company | 5,908,500.00 | Unfinished project |
| Shenzhen Zanrong Electronic Technique Limited Company | 3,737,168.99 | Unfinished project |
| Xi'an Yunshang Business Management Limited Company | 3,597,082.02 | Unfinished project |
| Guangzhou Yiguang Information Engineering Limited Company | <u>3,381,836.61</u> | Unfinished project |
| Total | <u><u>26,464,015.67</u></u> | — |

Other note:

36. Advance receipt*(1) Disclosure of advance receipt**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--|--------------------------------|--------------------------------|
| Contract item fund receivable in advance | <u>1,087,619,181.99</u> | <u>1,014,410,385.88</u> |
| Total | <u><u>1,087,619,181.99</u></u> | <u><u>1,014,410,385.88</u></u> |

*(2) Significant advances receipt with age over 1 year**Unit: Yuan*

| Items | Ending balance | Reason for not repaying or carrying forward |
|---|------------------------------|--|
| X Bureau, the Headquarters of the General Staff | 68,695,679.58 | Unfinished project |
| The 28th Research Institute of China Electronics Technology Group Corporation | 49,840,745.87 | Unfinished project |
| Information Technology Center, Ministry of Railways | 38,871,080.89 | Unfinished project |
| Beijing Information Resource Management Center | 31,898,218.21 | Unfinished project |
| Nanjing Nari Group Corporation Information System Integration Branch Office | <u>26,369,677.18</u> | Unfinished project |
| Total | <u><u>215,675,401.73</u></u> | — |

*(3) Information for the unfinished projects which are settled in construction contract**Unit: Yuan*

| Items | Amount |
|--------------|---------------|
|--------------|---------------|

Other note:

37. Employee pay payable*(1) Disclosure of employee pay payable**Unit: Yuan*

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance |
|--|----------------------|-----------------------|-----------------------|----------------------|
| I. Short-term compensation | 12,348,681.61 | 404,090,041.61 | 403,111,009.75 | 13,327,713.47 |
| II. Welfare after demission — defined drawing plan | 166,610.38 | 39,926,005.88 | 39,845,100.52 | 247,515.74 |
| III. Demission welfare | — | 112,900.00 | 112,900.00 | — |
| Total | <u>12,515,291.99</u> | <u>444,128,947.49</u> | <u>443,069,010.27</u> | <u>13,575,229.21</u> |

*(2) Disclosure of short-term compensation**Unit: Yuan*

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance |
|---|----------------------|-----------------------|-----------------------|----------------------|
| 1. Salary, bonus, allowance and subsidy | 11,902,381.79 | 353,200,378.38 | 352,258,609.76 | 12,844,150.41 |
| 2. Welfare expense of employee | — | 1,120,313.00 | 1,148,113.00 | (27,800.00) |
| 3. Social insurance charges | (5,859.12) | 22,102,930.26 | 22,070,283.95 | 26,787.19 |
| Including: Medical insurance premiums | (3,474.89) | 19,871,518.01 | 19,842,789.21 | 25,253.91 |
| Industrial injury insurance premiums | (5,706.83) | 753,897.91 | 752,598.12 | (4,407.04) |
| Birth insurance premiums | 3,322.60 | 1,477,514.34 | 1,474,896.62 | 5,940.32 |
| 4. Housing fund | (8,605.13) | 22,131,881.15 | 22,105,928.90 | 17,347.12 |
| 5. Labor union and educational expenditures | 450,820.23 | 5,532,046.92 | 5,525,582.24 | 457,284.91 |
| Other | <u>9,943.84</u> | <u>2,491.90</u> | <u>2,491.90</u> | <u>9,943.84</u> |
| Total | <u>12,348,681.61</u> | <u>404,090,041.61</u> | <u>403,111,009.75</u> | <u>13,327,713.47</u> |

(3) Disclosure of defined drawing plan

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance |
|-----------------------------------|--------------------------|-----------------------------|-----------------------------|--------------------------|
| 1. Basic endowment insurance | 146,588.59 | 37,762,846.34 | 37,694,719.02 | 214,715.91 |
| 2. Unemployment insurance expense | <u>20,021.79</u> | <u>2,163,159.54</u> | <u>2,150,381.50</u> | <u>32,799.83</u> |
| Total | <u><u>166,610.38</u></u> | <u><u>39,926,005.88</u></u> | <u><u>39,845,100.52</u></u> | <u><u>247,515.74</u></u> |

Other note:

38. Tax payable

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--|-----------------------------|-----------------------------|
| VAT | 43,523,651.30 | 35,280,167.08 |
| Business tax | 26,382,013.44 | 25,989,426.95 |
| Corporate income tax | 12,082,991.26 | 7,051,012.37 |
| Individual income tax | 566,619.57 | 506,375.87 |
| Urban maintenance and construction tax | 6,328,043.01 | 5,378,301.56 |
| Education surcharge | 3,472,010.48 | 3,085,536.82 |
| Local education surcharge | 1,372,757.35 | 1,186,499.43 |
| Other | <u>(4,305.95)</u> | <u>(6,140.99)</u> |
| Total | <u><u>93,723,780.46</u></u> | <u><u>78,471,179.09</u></u> |

Other note:

39. Accrual interest payable

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|--------------------|--------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Information for significant interest outstanding:

Unit: Yuan

| Borrowing unit | Amount outstanding | Reason |
|-----------------------|-------------------------------|---------------|
| Total | <u>0.00</u> | — |

Other note:

40. Dividends payable

Unit: Yuan

| Items | Ending balance | Beginning balance |
|------------------------|-----------------------|--------------------------|
| Common stock dividends | <u>2,097,812.00</u> | <u>0.00</u> |
| Total | <u>2,097,812.00</u> | <u>0.00</u> |

Other note, including significant dividends payable overdue over 1 year and the reason:

41. Other accounts payable

(1) Other accounts payable disclosed by nature

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--|-----------------------|--------------------------|
| Accounts receivable and accounts payable | 40,904,503.33 | 40,921,902.52 |
| Cash deposit payable | 26,751,931.55 | 23,581,653.36 |
| Other | <u>1,833,188.38</u> | <u>2,875,592.34</u> |
| Total | <u>69,489,623.26</u> | <u>67,379,148.22</u> |

(2) Other significant accounts payable with age over one year

Unit: Yuan

| Items | Ending balance | Reason for nonpayment or carryforward |
|--|----------------------------|---------------------------------------|
| Cisco Systems. Inc | 2,916,031.70 | Cash deposit |
| Chongqing Water Conservancy Information Center | <u>1,279,300.00</u> | Cash deposit |
| Total | <u><u>4,195,331.70</u></u> | — |

Other note:

42. Liabilities classified as held for sale

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|--------------------|--------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other note:

43. Non-current liabilities due within one year

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|--------------------|--------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other note:

44. Other current liabilities*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|---------------------------|-----------------------|--------------------------|
| Short-term bonds payables | <u>0.00</u> | <u>0.00</u> |
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Increase/decrease of short-term bonds payables:

Unit: Yuan

| Bond name | Face value | Issuing date | Term of bond | Amount issued | Beginning balance | Amount issued in 2014 | Accrued interest as per the face value | Amortization of bond's premium price | Amount paid in 2014 | Other | Ending balance |
|------------------|-------------------|---------------------|---------------------|----------------------|--------------------------|------------------------------|---|---|----------------------------|--------------|-----------------------|
| Total | — | — | — | | <u>0.00</u> | | | | | | <u>0.00</u> |

Other note:

45. Long-term loan*(1) Classification of long-term loan**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------|-----------------------|--------------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Details of classification of long-term loan:

Other note, including the range of interest rate:

46. Bonds payable*(1) Bonds payables**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

*(2) Increase and decrease in bonds payables (excluding preferred shares classified as financial liabilities, perpetual capital securities and other financial instruments)**Unit: Yuan*

| Bond name | Face value | Issuing date | Bond period | Amount issued | Beginning balance | Amount issued in 2014 | Accrued interest as per the face value | Amortization of bond's premium price | Amount paid in 2014 | Other | Ending balance |
|-----------|------------|--------------|-------------|---------------|-------------------|-----------------------|--|--------------------------------------|---------------------|-------------|----------------|
| Total | — | — | — | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

*(3) Specify the conditions for convertible bonds and conversion time.**(4) Specify other financial instrument classified as financial liabilities*

Basic information for other financial instruments, including outstanding preferred shares at the end, perpetual capital securities

Change in financial instruments, including outstanding preferred shares at the end, perpetual capital securities

Unit: Yuan

| Outstanding financial instrument | Beginning Number | Beginning Book value | Increase in 2014 Number | Increase in 2014 Book value | Decrease in 2014 Number | Decrease in 2014 Book value | Ending Number | Ending Book value |
|----------------------------------|------------------|----------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|---------------|-------------------|
|----------------------------------|------------------|----------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|---------------|-------------------|

Details of the base of financial instruments classified as financial liabilities

Other note:

47. Long-term payables*(1) Sorted by nature of funds**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------|-----------------------|--------------------------|
| Other note: | | |

48. Long-term employee pay payable*(1) Long-term employee pay payable table**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------|-----------------------|--------------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

(2) Change in defined benefit plan

Current value of obligation of defined benefit plan:

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|----------------------|------------------|------------------|
| I. Beginning balance | 0.00 | 0.00 |
| V. Ending balance | 0.00 | 0.00 |

Plan assets:

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|----------------------|------------------|------------------|
| I. Beginning balance | 0.00 | 0.00 |
| V. Ending balance | 0.00 | 0.00 |

Net liabilities (net assets) of defined benefit plan

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|----------------------|------------------|------------------|
| I. Beginning balance | 0.00 | 0.00 |
| V. Ending balance | 0.00 | 0.00 |

Specify the influence of contents of defined benefit plan and its relevant risk on future cash flow, time and uncertainty:

Specify significant actuarial assumption of defined benefit plan and the result of sensitivity analysis:

Other note:

49. Account payable special funds

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance | Reason of Formation |
|--------------|--------------------------|-------------------------|-------------------------|-----------------------|----------------------------|
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | — |

Other note:

50. Estimated liabilities*Unit: Yuan*

| Items | Ending balance | Beginning balance | Reason of Formation |
|--------------|---------------------------|------------------------------|--------------------------------|
| Total | <u>0.00</u> | <u>0.00</u> | — |

Other note, including details for relevant important assumption and estimation of significant estimated liabilities:

51. Deferred income*Unit: Yuan*

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance | Reason of Formation |
|-------------------|------------------------------|-----------------------------|-----------------------------|---------------------------|--------------------------------|
| Government grants | <u>20,791,899.75</u> | <u>29,292,600.00</u> | <u>25,290,300.63</u> | <u>24,794,199.12</u> | |
| Total | <u>20,791,899.75</u> | <u>29,292,600.00</u> | <u>25,290,300.63</u> | <u>24,794,199.12</u> | — |

Projects involving in government grants:

Unit: Yuan

| Project of liabilities | Beginning balance | Newly increased amount of subsidy in this period | Amount included in non-business income in the period | Other change | Ending balance | Related to assets/income |
|--|-------------------|--|--|--------------|----------------|--------------------------|
| Carrier-level firewall R&D and industrialization | 175,000.00 | | 175,000.00 | | | Related to income |
| RFID product R&D and industry application demonstration 121 | 691,843.27 | | 691,843.27 | | | Related to income |
| R&D and application demonstration of NPC functional support system | | 980,000.00 | 980,000.00 | | | Related to income |
| National science and technology plan coordinated management platform and key technical research demonstration | | 12,200,000.00 | 3,245,994.60 | | 8,954,005.40 | Related to income |
| Beijing high and new technology outcome transformation project in 2014 | | 1,000,000.00 | 299,236.72 | | 700,763.28 | Related to income |
| Yun safety management platform industrialization | | 4,500,000.00 | 4,475,624.00 | | 24,376.00 | Related to income |
| Special subsidy after promoting science and technology service industry in 2014 | | 500,000.00 | 500,000.00 | | | Related to income |
| Green data center monitoring management system | 1,286.50 | | 1,286.50 | | | Related to income |
| Information system (governmental affair and medical treatment) operation maintenance system R&D | 494,671.01 | | 494,671.01 | | | Related to income |
| R&D of reliable high-performance WEB safety protection network | 150,000.00 | | 150,000.00 | | | Related to income |
| Taiji Stock Internet of things application support platform development and industrialization project oriented for city emergency | | 3,720,000.00 | 3,719,945.50 | | 54.50 | Related to income |
| Education cloud green safety service assurance | | 3,530,000.00 | 242,145.20 | | 3,287,854.80 | Related to income |
| Special fund for information monitoring and pre-warning platform of Zhongguancun Science and Technology Park | 945,010.00 | | 945,010.00 | | | Related to income |
| R&D of data center virtual resource scheduling oriented for social management and service | 2,529,838.26 | | 2,529,838.26 | | | Related to income |
| Per-warning system assuring safe and economic operation of data center | 1,000,000.00 | | | | 1,000,000.00 | Related to income |
| Shanxi Science and Technology Innovation Project | 1,300,000.00 | | 583,581.84 | | 716,418.16 | Related to income |
| Electronic information industry development foundation project — R&D of IT management system based on basic regulations on internal company control | 720,000.00 | | 720,000.00 | | | Related to income |
| R&D and application of control system oriented for group customer mobile terminal level-to-level administration | 2,222,161.14 | | 1,828,313.09 | | 393,848.05 | Related to asset |
| GRC software and service engineering, Beijing engineering lab innovation capacity construction project | 8,970,000.00 | | 987,682.51 | | 7,982,317.49 | Related to income |
| Copyright monitoring public service platform | 110,212.96 | | | | 110,212.96 | Related to income |
| Digital work right protection service platform | 33,048.70 | | | | 33,048.70 | Related to income |
| Technological breakthrough and application relating to extraction and comparison of digital content characteristics | 1,448,827.91 | | 1,448,827.91 | | | Related to income |
| DZZWNW Important information protection technology and product research | | 1,190,000.00 | 1,190,000.00 | | | Related to income |
| Software industrial cluster development demonstration project (including safe, uniform enterprise-class dynamic application integration platform) | | 500,000.00 | | | 500,000.00 | Related to income |
| Zhanxing achievement transformation base construction — private cloud platform development and Industrialization oriented for group enterprise collaboration application | | 850,000.00 | | | 850,000.00 | Related to income |

| Project of liabilities | Beginning balance | Newly increased amount of subsidy in this period | Amount included in non-business income in the period | Other change | Ending balance | Related to assets/income |
|--|-------------------|--|--|--------------|----------------|--------------------------|
| Platform construction and demonstration application of key technology research and development and management service of digital copyright oriented for socialization creation | | 322,600.00 | 81,300.22 | | 241,299.78 | Related to income |
| Total | 20,791,899.75 | 29,292,600.00 | 25,290,300.63 | | 24,794,199.12 | — |

Other note:

52. Other non-current liabilities

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | 0.00 | 0.00 |

Other note:

53. Paid-in capital

Unit: Yuan

| | Beginning balance | Increase/Decrease in 2014 (+/-) | | | | Subtotal | Ending balance |
|------------------|-------------------|---------------------------------|----------|---------------------------------|-------|----------------|----------------|
| | | New issue of shares | Dividend | Share transferred from reserves | Other | | |
| The sum of share | 274,411,744.00 | | | | | 274,411,744.00 | |

Other note:

54. Other equity instrument

(1) Basic information for other financial instruments, including outstanding preferred shares at the end, perpetual capital securities

(2) *Change in financial instruments, including outstanding preferred shares at the end, perpetual capital securities*

Unit: Yuan

| Outstanding financial instruments | The beginning of the period | | Increase in 2014 | | Decrease in 2014 | | The end of the period | |
|-----------------------------------|-----------------------------|-------------|------------------|-------------|------------------|-------------|-----------------------|-------------|
| | Number | Book value | Number | Book value | Number | Book value | Number | Book value |
| Total | <u>0</u> | <u>0.00</u> | <u>0</u> | <u>0.00</u> | <u>0</u> | <u>0.00</u> | <u>0</u> | <u>0.00</u> |

Details for increase/decrease of other equity instrument, the reason and the base of relevant accounting treatment:

Other note:

55. Capital reserves

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance |
|----------------------------------|-------------------------|------------------|------------------|-------------------------|
| Capital premium (equity premium) | 1,044,692,408.61 | | | 1,044,692,408.61 |
| Other capital reserves | <u>2,714,695.17</u> | | | <u>2,714,695.17</u> |
| Total | <u>1,047,407,103.78</u> | <u>0.00</u> | <u>0.00</u> | <u>1,047,407,103.78</u> |

Other note, including information for increase/decrease in 2014 and the reason of change:

56. Treasury stock

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance |
|-------|-------------------|------------------|------------------|----------------|
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

Other note, including increase/decrease in 2014 and the reason:

57. Other comprehensive income

Unit: Yuan

| Items | Beginning balance | Amount before income tax in 2014 | Subtract: the amount which is included in other comprehensive income in 2013 and transferred in profit and loss in 2014 | Year 2014 | | Amount attributable to minority shareholder after tax | Ending balance |
|--|-------------------|----------------------------------|---|------------------------------|---|---|----------------|
| | | | | Subtract: Income tax expense | Amount attributable to the parent after tax | | |
| I. Other comprehensive income which cannot be reclassified in profit and loss in future periods | | | | | 0.00 | | |
| Include: change in net liabilities and net assets generated from recalculating defined benefit plan | | | | | 0.00 | | |
| The share of the invested unit in other comprehensive income which cannot be reclassified in profit and loss under equity method | | | | | 0.00 | | |
| II. Other comprehensive income which is reclassified in profit and loss in future periods | | | | | 0.00 | | |
| Include: The share of the invested unit in other comprehensive income which can be reclassified in profit and loss under equity method | | | | | 0.00 | | |
| Profit and loss generated from the change in fair value of available-for-sale financial assets | | | | | 0.00 | | |
| Profit and loss generated from reclassifying held-to-maturity investment as available-for-sale financial assets | | | | | 0.00 | | |
| Effective portion of profit and loss generated from cash flow hedge | | | | | 0.00 | | |
| Foreign currency financial statement translation balance | | | | | 0.00 | | |
| Total amount of other comprehensive income | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

Other note, include adjusting initial recognition amount generated from transferring effective portion of profit and loss generated from cash flow hedge to hedged item:

58. Special reserves

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance |
|-------|-------------------|------------------|------------------|----------------|
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

Other note, including increase/decrease in 2014 and the reason:

59. Surplus reserves

Unit: Yuan

| Items | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance |
|-------------------|----------------------|----------------------|-----------------------------|----------------------|
| Statutory surplus | <u>56,886,936.30</u> | <u>12,587,209.90</u> | <u> </u> | <u>69,474,146.20</u> |
| Total | <u>56,886,936.30</u> | <u>12,587,209.90</u> | <u>0.00</u> | <u>69,474,146.20</u> |

Information for surplus reserves, including increase/decrease in 2014 and the reason:

In 2014, the Company's statutory surplus reserve is 12,587,209.90 Yuan based on 10% of retained profits (in 2013, it is 12,999,510.76 Yuan base on 10% of retained profits).

60. Undistributed profits*Unit: Yuan*

| Items | In 2014 | In 2013 |
|---|----------------|----------------|
| Undistributed profit at the end of previous period before adjustment | 478,350,101.66 | 357,216,746.16 |
| Undistributed Profit after Adjustment at the beginning of This Period (increase +, decrease -) | 0.00 | 0.00 |
| Undistributed Profit after Adjustment at the beginning of This Period | 478,350,101.66 | 357,216,746.16 |
| Add: Net profit attributable to the owners of the company for the period | 195,715,505.34 | 176,809,800.66 |
| Subtract: Statutory surplus reserve | 12,587,209.90 | 12,999,510.76 |
| Common stock dividends payable | 54,882,348.80 | 42,676,934.40 |
| Undistributed Profit at the end of period | 606,596,048.30 | 478,350,101.66 |

Details for adjusting beginning undistributed profit:

- 1). Because retroactive adjustment is carried out according to ASBE and relevant new regulations, the affected beginning undistributed profit is 0.00 Yuan.
- 2). Because of changes in accounting policies, the affected beginning undistributed profit is 0.00 Yuan.
- 3). Because of correction of significant accounting errors, the affected beginning undistributed profit is 0.00 Yuan.
- 4). Because of change in range of business combination under common control, the affected beginning undistributed profit is 0.00 Yuan.
- 5). Because of other adjustment, total affected beginning undistributed profit is 0.00 Yuan.

61. Operating income and cost*Unit: Yuan*

| Items | Year 2014 | | Year 2013 | |
|---------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Income | Cost | Income | Cost |
| Main business | <u>4,255,622,147.28</u> | <u>3,552,336,013.70</u> | <u>3,366,376,084.61</u> | <u>2,788,463,318.04</u> |
| Total | <u><u>4,255,622,147.28</u></u> | <u><u>3,552,336,013.70</u></u> | <u><u>3,366,376,084.61</u></u> | <u><u>2,788,463,318.04</u></u> |

62. Business tax and surcharges*Unit: Yuan*

| Items | Year 2014 | Year 2013 |
|--|-----------------------------|-----------------------------|
| Business tax | 13,136,654.30 | 16,171,985.59 |
| Urban maintenance and construction tax | 6,641,721.17 | 6,186,721.30 |
| Education surcharge | 2,846,390.42 | 2,672,453.65 |
| Local education surcharge | 1,897,827.78 | 1,288,822.09 |
| Other | <u>3,775.98</u> | <u>390,557.26</u> |
| Total | <u>24,526,369.65</u> | <u>26,710,539.89</u> |

Other note:

63. Selling expenses*Unit: Yuan*

| Items | Year 2014 | Year 2013 |
|-----------------------------------|-----------------------------|-----------------------------|
| Travel expense | 19,873,009.68 | 13,700,454.64 |
| Office expenses | 13,087,259.86 | 9,864,225.48 |
| Business entertainment | 6,137,064.32 | 8,607,739.11 |
| Freight and miscellaneous charges | 6,224,479.65 | 4,577,823.18 |
| Wages | 11,841,236.52 | 2,359,599.72 |
| Social insurance expenses | 1,441,451.70 | — |
| Communication expense | 2,039,708.82 | 1,727,673.90 |
| Conference expense | 895,656.34 | 1,059,698.86 |
| Consulting fee | 1,145,000.00 | — |
| Bidding charge | 679,499.50 | — |
| Advertising and publicity cost | 644,556.76 | — |
| Other | <u>3,809,385.64</u> | <u>3,463,254.58</u> |
| Total | <u>67,818,308.79</u> | <u>45,360,469.47</u> |

Other note:

64. Administrative expense

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--------------------------------------|-----------------------|-----------------------|
| Wages | 211,442,449.26 | 164,022,416.43 |
| Social insurance expenses | 41,301,473.61 | 33,301,562.87 |
| Housing fund | 13,949,986.11 | 12,100,326.14 |
| Development cost | 51,773,388.12 | 27,258,337.77 |
| Amortization expense | 22,885,933.72 | 13,189,143.21 |
| Office expenses | 14,995,711.93 | 17,237,627.93 |
| Rental fee | 4,720,691.91 | 12,419,512.06 |
| Administrative fee of parent company | 13,381,701.40 | 11,518,129.62 |
| Miscellaneous expense | 3,512,497.90 | 6,563,786.31 |
| Depreciation cost | 6,375,099.72 | 4,274,306.35 |
| Other | 20,792,618.75 | 20,826,200.34 |
| Total | <u>405,131,552.43</u> | <u>322,711,349.03</u> |

Other note:

65. Financial cost

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|---------------------------|---------------------|-----------------------|
| Interest expense | 6,119,485.64 | 447,416.67 |
| Subtract: interest income | (9,258,142.76) | (9,507,220.52) |
| Handling charge | <u>2,179,086.65</u> | <u>1,424,362.34</u> |
| Total | <u>-959,570.47</u> | <u>(7,635,441.51)</u> |

Other note:

66. Losses from asset impairment

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--|-----------------------------|-----------------------------|
| I. Losses from bad debt | 29,015,200.20 | 28,669,948.25 |
| II. Losses from inventory depreciation | <u>(645,412.87)</u> | <u>1,916,434.08</u> |
| Total | <u><u>28,369,787.33</u></u> | <u><u>30,586,382.33</u></u> |

Other note:

67. Earnings from the change in fair value

Unit: Yuan

| Source of earnings from the changed in fair value | Year 2014 | Year 2013 |
|--|--------------------|--------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other note:

68. Income from investment

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|---|----------------------------|----------------------------|
| Income from long-term equity investment calculated with equity method | 1,993,544.51 | 1,826,062.69 |
| Income from investment in held-for-sale financial assets during holding period | <u>103,247.68</u> | <u>97,402.65</u> |
| Total | <u><u>2,096,792.19</u></u> | <u><u>1,923,465.34</u></u> |

Other note:

69. Non-operating income

| Items | Year 2014 | Year 2013 | <i>Unit: Yuan</i> |
|---|-----------------------------|-----------------------------|---|
| | | | Amount included in the current non-recurring profit and loss |
| Total gains on disposal of non-current assets | 9,281.40 | 527.60 | 9,281.40 |
| Including: gain on disposal of fixed assets | 9,281.40 | 527.60 | 9,281.40 |
| Government subsidies | 38,202,574.56 | 31,880,232.65 | 26,036,478.63 |
| Other | <u>15,434.00</u> | <u>350,017.35</u> | <u>15,434.00</u> |
| Total | <u><u>38,227,289.96</u></u> | <u><u>32,230,777.60</u></u> | <u><u>26,061,194.03</u></u> |

Breakdown of government subsidies:

Unit: Yuan

| Subsidy items | Year 2014 | Year 2013 | Related to asset/ Related to income |
|--|---------------|--------------|--|
| Drawback for software product | 12,166,095.93 | 8,422,767.75 | Related to income |
| R&D and application demonstration of NPC functional support system | 980,000.00 | 550,000.00 | Related to income |
| R&D and application of control system oriented for group customer mobile terminal level-to-level administration | 1,828,313.09 | 758,138.86 | Related to income |
| RFID product R&D and industry application demonstration | 691,843.27 | 348,708.29 | Related to income |
| Special fund for information monitoring and pre-warning platform of Zhongguancun Science and Technology Park | 945,010.00 | 95,000.00 | Related to income |
| Taiji Stock Internet of things application support platform development and industrialization project oriented for city emergency | 3,719,945.50 | 566,946.00 | Related to income |
| R&D of data center virtual resource scheduling oriented for social management and service | 2,529,838.26 | 165,699.66 | Related to income |
| National science and technology plan coordinated management platform and key technical research demonstration | 3,245,994.60 | | Related to income |
| Beijing high and new technology outcome transformation project in 2014 | 299,236.72 | | Related to income |
| Cloud safety management platform industrialization | 4,475,624.00 | | Related to income |
| Special subsidy after promoting science and technology service industry in 2014 | 500,000.00 | | Related to income |
| Education cloud green safety service assurance | 242,145.20 | | Related to income |
| Carrier-level firewall R&D and industrialization | 175,000.00 | | Related to income |
| Green data center monitoring management system | 1,286.50 | | Related to income |
| Information system (governmental affair and medical treatment) operation maintenance system R&D | 494,671.01 | | Related to income |
| R&D of reliable high-performance WEB safety protection network | 150,000.00 | | Related to income |
| DZZWNW Important information protection technology and product research | 1,190,000.00 | | Related to income |
| R&D of IT management system based on basic regulations on internal company control | 720,000.00 | | Related to income |
| GRC software and service engineering, Beijing engineering lab innovation capacity construction project | 987,682.51 | | Related to asset |
| Technological breakthrough and application relating to extraction and comparison of digital content characteristics | 1,448,827.91 | | Related to income |
| Platform construction and demonstration application of key technology research and development and management service of digital copyright oriented for socialization creation | 81,300.22 | | Related to income |
| Shannxi Science and Technology Innovation Project | 583,581.84 | | Related to income |

| Subsidy items | Year 2014 | Year 2013 | Related to asset/ Related to income |
|--|----------------------|----------------------|--|
| Special funds for Internet of Things Contract Energy Management of Zhongguancun Science and Technology Park | | 1,125,000.00 | Related to income |
| SM information system integrated management platform industrialization | | 6,100,000.00 | Related to income |
| Special fund for promotion of transformation and industrialization of scientific achievements in Haidian District 2012 | | 1,000,000.00 | Related to income |
| Critical Technical Research and Demonstration Application of Governmental Affair Information System Based on Cloud Computation | | 620,000.00 | Related to income |
| Critical technical research and demonstration application of smart Yan'an functional application support platform | | 1,000,000.00 | Related to income |
| Critical technical research of Internet of Things oriented for urban appearance management | | 3,000,000.00 | Related to income |
| Critical Technical Research and Demonstration Application of Internet of Things Mass Data Processing and Decision-making Analysis Oriented for Safe Operation and Emergency Management | | 4,176,800.00 | Related to income |
| Trade mark promotion fund of China Technology Exchange Co., Ltd. | | 500,000.00 | Related to income |
| R&D subsidy of Beijing Bureau of Quality and Technical Supervision | | 150,000.00 | Related to income |
| Technological breakthrough and application relating to extraction and comparison of digital content characteristics | | 551,172.09 | Related to income |
| Total risk management and internal control platform software oriented to energy (power) industry | | 600,000.00 | Related to income |
| Bonus subsidy for Zhongguancun Science and Technology Park | 350,000.00 | 150,000.00 | Related to income |
| Interest subsidy for Zhongguancun Science and Technology Park | 313,978.00 | | Related to income |
| Subsidy of Beijing Haidian District Development and Reform Committee | 30,000.00 | | Related to income |
| Subsidy of Ministry of Industry and Information, PRC | 30,000.00 | | Related to income |
| Nanjing Jiangning support funds | 20,000.00 | 2,000,000.00 | Related to income |
| Subsidy for intellectual property | <u>2,200.00</u> | | Related to income |
| Total | <u>38,202,574.56</u> | <u>31,880,232.65</u> | — |

Other note:

70. NON-OPERATING EXPENSES

| Items | <i>Unit: Yuan</i> | | |
|--|--------------------------|----------------------------|---|
| | Year 2014 | Year 2013 | Amount included in the current non-recurring profit and loss |
| Total Loss on disposal of non-current assets | 93,796.81 | 34,221.40 | 93,796.81 |
| Including: Loss on disposal of fixed assets | 93,796.81 | 34,221.40 | 93,796.81 |
| External donation | 290,000.00 | 250,000.00 | 290,000.00 |
| Other | <u>1,964.61</u> | <u>1,428,111.57</u> | <u>1,964.61</u> |
| Total | <u><u>385,761.42</u></u> | <u><u>1,712,332.97</u></u> | <u><u>385,761.42</u></u> |

Other note:

71. Income tax expenses

(1) Table of income tax expenses

| Items | <i>Unit: Yuan</i> | |
|---------------------------------------|-----------------------------|-----------------------------|
| | Year 2014 | Year 2013 |
| Income tax expenses of current period | 26,404,776.88 | 19,761,894.71 |
| Adjustment of deferred income tax | <u>(6,257,302.57)</u> | <u>(7,107,269.87)</u> |
| Total | <u><u>20,147,474.31</u></u> | <u><u>12,654,624.84</u></u> |

*(2) Adjustment process of accounting profit and income tax expenses**Unit: Yuan*

| Items | Year 2014 |
|--|------------------|
| Total profit | 218,338,006.58 |
| Income tax expenses calculated as per statutory/applicable tax rate | 21,833,800.66 |
| Influence of different tax rate applicable to subsidiary | 718,343.51 |
| Influence of non-deductible costs, expenses and losses | (1,486,970.80) |
| Influence of deductible losses using unrecognized deferred income tax assets in previous period | (10,747.54) |
| Influence of deductible and temporary difference or deductible losses of unrecognized deferred income tax assets in current period | 1,371,002.32 |
| Influence of change in tax rate | (2,079,853.41) |
| Tax-exemption income | (217,941.05) |
| income tax paid back (returned) in previous period which is included in the current period | 19,840.62 |
| Income tax expenses | 20,147,474.31 |

Other note:

72. Other comprehensive income

See notes for details.

73. Items in cash flow statement*(1) Other cash received relating to business activities**Unit: Yuan*

| Items | Year 2014 | Year 2013 |
|--|------------------------------|------------------------------|
| Bank interest income | 5,781,439.10 | 13,619,954.23 |
| Government grants rather than return of taxes and dues | 24,757,200.00 | 29,883,261.66 |
| Accounts receivable and accounts payable | 31,488,965.65 | 61,106,809.81 |
| Guarantee deposit received | 239,421,839.30 | 193,091,089.64 |
| Change in limited monetary funds | 26,683,820.55 | 11,536,648.41 |
| Other | <u>19,527,347.17</u> | <u>16,073,077.53</u> |
| Total | <u><u>347,660,611.77</u></u> | <u><u>325,310,841.28</u></u> |

Other cash received relating to business activities:

(2) *Other cash paid relating to business activities*

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--|------------------------------|------------------------------|
| Operating management expenses paid | 164,359,716.84 | 88,718,659.08 |
| Accounts receivable and accounts payable | 37,497,427.44 | 59,560,602.59 |
| Guarantee deposit paid | 265,290,138.98 | 191,918,341.07 |
| Other | <u>3,398,268.36</u> | <u>81,839,819.39</u> |
| Total | <u><u>470,545,551.62</u></u> | <u><u>422,037,422.13</u></u> |

Other cash paid relating to business activities:

(3) *Other cash received relating to investment activities*

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--------------|--------------------|--------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other cash received relating to investment activities:

(4) *Other cash paid relating to investment activities*

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--------------|--------------------|--------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other cash paid relating to investment activities:

(5) *Other cash received relating to financial activities*

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--------------|--------------------|--------------------|
| Total | <u><u>0.00</u></u> | <u><u>0.00</u></u> |

Other cash received relating to financial activities:

(6) *Other cash paid relating to financial activities*

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--------------|------------------|------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other cash paid relating to financial activities:

74. Supplementary information on cash flow statements

(1) Supplementary information on cash flow statements

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|--|------------------|------------------|
| 1. To Adjust the Net-profit as Cash Flow of Operating Activities: | — | — |
| Retained profits | 198,190,532.27 | 179,966,752.49 |
| Add: Provision for asset impairment | 28,369,787.33 | 30,586,382.33 |
| Fixed assets depreciation, oil and gas assets depreciation, productive biological assets depreciation | 7,208,174.18 | 5,115,571.95 |
| Amortization of intangible assets | 22,239,904.52 | 12,029,616.85 |
| Amortization of long-term deferred expenses | 2,131,180.68 | 1,255,948.24 |
| Losses on Disposal of Fixed Assets, Intangible Assets and Other Long-term Assets (Income marked “()”) | 84,515.41 | 33,693.80 |
| Financing Expense (Income marked “()”) | 6,119,485.64 | 447,416.67 |
| Investment Loss (Income marked “()”) | (2,096,792.19) | (1,923,465.34) |
| Decrease in Deferred Income Tax Assets (Increase marked “()”) | (6,188,096.51) | (7,020,762.29) |
| Increase in Deferred Income Tax Liabilities (Decrease marked “()”) | (69,206.06) | (86,507.58) |
| Decrease in inventory (Increase marked “()”) | 9,718,221.97 | (31,919,667.51) |
| Decrease in Operating Items Receivable (Increase marked “()”) | (501,635,600.99) | (171,423,412.36) |
| Increase of Operating Payables (Decrease marked “()”) | 219,021,410.57 | 372,248,258.77 |
| Net cash flow from operating activities | (16,906,483.18) | 389,309,826.02 |
| 2. Significant investment and financing activities without cash receipts and payments: | — | — |
| 3. Change in Cash and Cash Equivalents: | — | — |
| Cash balance at the end of the Period | 850,846,775.18 | 1,054,299,917.24 |
| Subtract: amount at the beginning period | 1,054,299,917.24 | 696,873,552.28 |
| Add: amount of cash equivalents at the end of period | 0.00 | 0.00 |
| Subtract: amount of cash equivalents at the beginning period | 0.00 | 0.00 |
| Net Increase in cash and cash equivalents | (203,453,142.06) | 357,426,364.96 |

*(2) Net cash paid for acquiring subsidiary in 2014**Unit: Yuan*

| | Amount |
|--|---------------|
| Including: | — |
| Including: | — |
| Including: | — |
| Net cash paid for acquiring subsidiary | <u>0.00</u> |

Other note:

*(3) Net cash received for disposal of subsidiary in 2014**Unit: Yuan*

| | Amount |
|--|---------------|
| Including: | — |
| Including: | — |
| Including: | — |
| Net cash received for disposal of subsidiary | <u>0.00</u> |

Other note:

*(4) Composition of cash and cash equivalents**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--|-----------------------|--------------------------|
| I. Cash | <u>850,846,775.18</u> | <u>1,054,299,917.24</u> |
| Including: Cash in Stock | 650,686.15 | 643,024.34 |
| Bank deposit available for immediate payment | 793,048,192.33 | 1,014,036,449.27 |
| Other currency available for immediate payment | 57,147,896.70 | 39,620,443.63 |
| II. Cash equivalents | <u>0.00</u> | <u>0.00</u> |
| III. Balance of cash and cash equivalents | <u>850,846,775.18</u> | <u>1,054,299,917.24</u> |

Other note:

75. Notes to statement of change in equity

Specify “Others” name and adjustment amount for the balance in the end of last year, adjustment amount and other matters:

None

76. Assets with limited ownership or right to use

Unit: Yuan

| Items | Ending book value | Reason for limitation |
|---------------------------|-----------------------|---|
| Cash and cash equivalents | 141,193,022.31 | Fixed-term deposit and the L/G deposit more than three months |
| Total | <u>141,193,022.31</u> | — |

Other note:

77. Foreign currency monetary items

(1) *Foreign currency monetary items*

Unit: Yuan

| Items | Ending foreign monetary book value | Translation rate | Ending book value represented in RMB |
|-------|--|------------------|--|
|-------|--|------------------|--|

Other note:

(2) *Overseas operating entity, for significant overseas operating entity, main business location, recording currency and basis of selection should be disclosed, the reason shall be disclosed in case of change in recording currency.*

Applicable Inapplicable

78. Hedging

Hedged items and relevant hedging instrument, qualitative and quantitative information of hedged risk shall be disclosed according the type of hedging:

None

79. Other

None

VIII. CHANGE OF RANGE OF CONSOLIDATED FINANCIAL STATEMENTS**1. Business combination not under common control**

(1) Business combination not under common control in report period

Unit: Yuan

| Name of the combined entity | Acquisition time of equity | Acquisition cost of equity | Acquisition proportion of equity | Form of achievement | Acquisition date | Confirming basis of acquisition date | Income of the combined entity from acquisition date to the end of period | Retained profits of the combined entity from acquisition date to the end of period |
|-----------------------------|----------------------------|----------------------------|----------------------------------|---------------------|------------------|--------------------------------------|--|--|
| | | | | | | | | |

Other note:

(2) Combined cost and goodwill

Recognition method of fair value of combined cost, contingent consideration and its change:

Primary cause of the formation of significant goodwill:

Other note:

(3) Identifiable assets and liabilities of the combined entity on the purchase date

Recognition method for the fair value of identifiable assets and liabilities:

Contingent liabilities of the combined entity assumed in business combination:

Other note:

(4) *Profit and loss generated from re-measuring the equity held before acquisition date at fair value*

Whether business combination is achieved through several transactions and the control is achieved in the report period

Yes No

(5) *Combination consideration or the fair value of identifiable assets and liabilities of the combined entity cannot be recognized at the acquisition date or the period when the combination occurs*

(6) *Other note*

2. Business combination under common control

(1) *Business combination under common control in report period*

Unit: Yuan

| Name of the combined entity | Equity proportion acquired in business combination | Basis of business combination under common control | Acquisition date | Confirming basis of acquisition date | Income of the combined entity from the beginning of the combination period to acquisition date | Retained profits of the combined entity from the beginning of the combination period to acquisition date | Income of the combined entity during comparing period | Net profit of the combined entity during comparing period |
|-----------------------------|--|--|------------------|--------------------------------------|--|--|---|---|
| | | | | | | | | |

Other note:

(2) *Combined cost*

Contingent consideration and its change:

Other note:

(3) *Book value of assets and liabilities of the combined entity on the combination date*

Contingent liabilities of the combined entity assumed in business combination:

Other note:

3. Counter purchase

Basic information of transaction, basis for counter purchase, reserved assets of listed company, whether the liabilities constitute a business and its base, determining combined cost, adjusting the amount of equity according to equity transaction and its calculation:

4. Disposal of subsidiary

Whether single disposal of investment in subsidiary results in losing control power

Yes No

Whether several disposal transactions of investment in subsidiary results in losing control power in the current period

Yes No

5. Other reasons for change in combination range

Specify other reasons for change in combination range (for example, newly established subsidiary, liquidation of subsidiary, etc) and relevant conditions:

Smartdot Donghe, a subsidiary of Smartdot Science and Technology Ltd, invested and established Beijing Boyun Haoya Science and Technology Development Limited Company (hereinafter referred to as “Boyun Haoya”), with registered capital of 10,000,000 Yuan, shareholding ratio of Smartdot Donghe is 80%.

6. Other

IX. EQUITY IN OTHER ENTITIES

1. Equity in subsidiary

(1) Composition of enterprise group

| Name of subsidiary | Main business location | Registration place | Nature of business | Shareholding proportion | | Form of achievement |
|--|------------------------|--------------------|---|-------------------------|----------|---|
| | | | | Direct | Indirect | |
| Beijing Taiji Information System Technology Co., Ltd. | Beijing City | Beijing City | System integration | 100.00% | | Establish |
| Beijing Taiji Network Technology Co., Ltd. | Beijing City | Beijing City | Technical services | 100.00% | | Establish |
| Shenzhen Taiji Building Technology Co., Ltd. | Shenzhen City | Shenzhen City | Technological development and selling of building intelligent product | 80.00% | | Establish |
| Taiji Computer (Xi'an) Co., Ltd. | Xi'an City | Xi'an City | System integration | 100.00% | | Establish |
| Hainan Taiji Information Technology Co., Ltd. | Hainan | Hainan | System integration | 100.00% | | Establish |
| Beijing Taiji Cloud Computer Technology Development Co., Ltd. | Beijing City | Beijing City | Property management, Technical services | 100.00% | | Establish |
| Beijing Smartdot Science and Technology Ltd. | Beijing City | Beijing City | Software development | 91.00% | | Obtain by business combination under common control |
| Nanjing Smartdot Information Technology Ltd. | Nanjing City | Nanjing City | Software development | | 91.00% | Establish |
| Beijing Smartdot Information Technology Ltd. | Beijing City | Beijing City | Software development | | 55.51% | Establish |
| Beijing Boyun Haoya Science and Technology Development Limited Company | Beijing City | Beijing City | Technological development | | 72.80% | Newly establish |

Shareholding proportion in subsidiary differs from proportion of voting right:

Judgment base of having $\leq 50\%$ voting right but controlling the invested unit as well as having $> 50\%$ voting right but not controlling the invested unit:

Basis of controlling significant structuring subject in the combination range:

Basis of determining whether the Company is contracting-out party or client:

Other note:

(2) Significant non-wholly-owned subsidiaries

Unit: Yuan

| Name of subsidiaries | Minority shareholder's shareholding proportion | Profits and loss attributable to the minority shareholders in 2014 | The dividends declared to distribute to the minority shareholders in 2014 | Ending book value of minority interests |
|--|--|--|---|---|
| Beijing Smartdot Science and Technology Ltd. | 9.00% | 5,159,512.43 | | 19,648,425.01 |

Shareholding proportion of minority shareholder in subsidiary differs from proportion of voting right:

Other note:

(3) Main financial information for significant non-wholly-owned subsidiaries

Unit: Yuan

| Name of subsidiaries | Ending balance | | | | | | Beginning balance | | | | | |
|--|----------------|--------------------|----------------|---------------------|-------------------------|-------------------|-------------------|--------------------|----------------|---------------------|-------------------------|-------------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total liabilities | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total liabilities |
| Beijing Smartdot Science and Technology Ltd. | 299,242,903.81 | 42,703,298.88 | 341,946,202.69 | 105,899,789.80 | 10,387,551.20 | 116,287,341.00 | 262,929,910.13 | 19,259,504.51 | 282,189,414.64 | 99,038,517.13 | 13,850,280.99 | 112,888,798.12 |

Unit: Yuan

| Name of subsidiaries | Year 2014 | | | | Year 2013 | | | |
|--|------------------|---------------|----------------------------|--------------------------------------|------------------|---------------|----------------------------|--------------------------------------|
| | Operating income | Net profit | Total comprehensive income | Cash flows from operating activities | Operating income | Net profit | Total comprehensive income | Cash flows from operating activities |
| Beijing Smartdot Science and Technology Ltd. | 209,836,629.68 | 54,637,534.67 | 54,637,534.67 | 15,716,877.43 | 79,293,301.79 | 33,498,748.12 | 33,498,748.12 | 59,350,069.27 |

Other note:

(4) Significant restrictions for using the Company's assets and settling the Company's liabilities

(5) Financial support or other support provided to structuring subject in the range of combined financial statement

Other note:

2. Transactions for which the share of owner's equity in subsidiary changes but the subsidiary is controlled

(1) *Information for change in the share of owner's equity in subsidiary*

(2) *The influence of transaction on minority equity and owner's equity attributable to the parent*

Other note:

3. Equity in joint venture or affiliated business

(1) *Significant cooperative enterprises or affiliated business*

| Name of cooperative enterprises or affiliated business | Main business location | Registration place | Nature of business | Shareholding proportion | | Accounting treatment method of investment in cooperative enterprises or affiliated business |
|---|------------------------|--------------------|---------------------------|-------------------------|----------|---|
| | | | | Direct | Indirect | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | Beijing City | Beijing City | Technological development | 50.00% | | Equity method |
| Beijing Kingbase Information Technology Limited Liability Company | Beijing City | Beijing City | Software development | 32.74% | | Equity method |

Shareholding proportion in cooperative enterprises or affiliated business differs from proportion of voting right:

Judgment base of having < 20% voting right but having significant influence as well as having ≥ 20% voting right but not having significant influence:

(2) Main financial information for significant cooperative enterprises

| Items | Ending balance/ Year 2014 Taiji Ao'Tian | Beginning balance/ Year 2013 Taiji Ao'Tian |
|--|--|---|
| Current assets | 4,679,436.01 | 5,814,763.92 |
| Including: Cash and cash equivalent | 4,679,436.01 | 5,779,763.92 |
| Non-current assets | 115,311,500.00 | 114,226,200.00 |
| Total assets | 119,990,936.01 | 120,040,963.92 |
| Current liabilities | 84,000.00 | 84,000.00 |
| Non-current liabilities | | |
| Total liabilities | 84,000.00 | 84,000.00 |
| Minority equity | | |
| Stockholder's equity attributable to the parent | 119,906,936.01 | 119,956,963.92 |
| Net asset share calculated with shareholding proportion | 59,953,468.00 | 59,978,481.96 |
| Book value of equity investment in cooperative enterprises | 59,953,468.00 | 59,978,481.96 |
| Operating revenues | | |
| Financial cost | (20,634.09) | (70,883.92) |
| Income tax expense | | |
| Retained profits | (50,027.91) | (43,036.08) |
| Other comprehensive income | | |
| Total comprehensive income | (50,027.91) | (43,036.08) |
| Dividends received from cooperative enterprises in 2014 | | |

Other note:

(3) Main financial information for significant affiliated business

| Items | Ending balance/ Year 2014 Kingbase | Beginning balance/ Year 2013 Kingbase |
|--|---|--|
| Current assets | 111,163,054.38 | 128,495,801.15 |
| Non-current assets | 74,718,775.62 | 69,588,584.16 |
| Total assets | 185,881,830.00 | 198,084,385.31 |
| Current liabilities | 14,647,707.91 | 31,239,813.81 |
| Non-current liabilities | 14,027,692.03 | 17,460,972.73 |
| Total liabilities | 28,675,399.94 | 48,700,786.54 |
| Minority equity | 6,709,023.66 | 5,034,163.26 |
| Stockholder's equity attributable to the parent | 150,497,406.40 | 144,349,435.51 |
| Net asset share calculated with shareholding proportion | 49,272,850.86 | 47,260,005.19 |
| Adjusting items | 3,139,359.79 | 3,139,359.79 |
| — Goodwill | 3,139,359.79 | 3,139,359.79 |
| — Other | 11,152.57 | |
| Book value of equity investment in affiliated business | 52,423,363.22 | 50,399,364.98 |
| Operating revenues | 86,577,434.15 | 71,311,257.39 |
| Financial cost | 526,378.00 | 656,196.07 |
| Income tax expense | 296,442.88 | 951,283.40 |
| Retained profits | 7,827,899.79 | 7,217,728.58 |
| Other comprehensive income | | |
| Total comprehensive income | 7,827,899.79 | 7,217,728.58 |
| Dividends received from cooperative enterprises in 2014 | | |

Other note:

(4) *Summary on financial information for insignificant cooperative enterprises and affiliated business*

Unit: Yuan

| | Ending balance/ Year 2014 | Beginning balance/ Year 2013 |
|---|------------------------------|---------------------------------|
| Cooperative enterprises: | — | — |
| Total amount calculated with the following shareholding proportion | — | — |
| Affiliated business: | — | — |
| Total book value of investment | 394,560.23 | |
| Total amount calculated with the following shareholding proportion | — | — |
| — Retained profits | (5,439.77) | — |
| — Total comprehensive income | (5,439.77) | |

Other note:

(5) *Significant restrictions for cooperative enterprises or affiliated business transferring funds to the Company*

(6) *Excess loss generated in cooperative enterprises or affiliated business*

Unit: Yuan

| Name of cooperative enterprises or affiliated business | Accumulated unconfirmed loss in previous periods | Unconfirmed loss in 2014 (or retained profits shared in 2014) | Accumulated unconfirmed loss at the end of period |
|---|---|--|--|
|---|---|--|--|

Other note:

(7) *Unconfirmed commitment related to investment in cooperative enterprises*

(8) *Contingent liabilities related to investment in cooperative enterprises or affiliated business*

4. Significant joint venture

| Name of joint venture | Main business location | Registration place | Nature of business | Shareholding proportion | |
|-----------------------|------------------------|--------------------|--------------------|-------------------------|----------|
| | | | | Direct | Indirect |

Shareholding proportion in joint venture differs from proportion of voting right:

For joint venture as a independent subject, the basis of classifying as joint venture:

Other note:

5. Equity of structuring subject out of the range of combined financial statement

Information for structuring subject out of the range of combined financial statement:

6. Other**X. RISK RELATED TO FINANCIAL INSTRUMENT**

The Board of Directors of the Company is responsible for planning and establishing risk management architecture, developing risk management policies and relevant guidelines as well as supervising the implementation of risk management measures. Through developing risk management policies, establishing appropriate control programs, identifying, analyzing, supervising and reporting risk conditions, the Company regularly evaluates the overall risk conditions. The business activities of the Company will face with many financial risks: market risk (mainly including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company develops overall risk management plan against the unpredictability of financial market to reduce the possible adverse influence on the financial performance of the Company as far as possible.

The Company disperses the risks related to financial instruments through appropriate diversified investments and business portfolio and develops corresponding risk management policies to reduce the risks concentrated on any single industry, specified area or specified counterparty. On December 31, 2014, the Company has no risks concentrated on client type, an industry or geographic location. On the contrary, our business objects and investments are widely distributed, our risks related to financial instruments are mainly affected by the characteristics of various clients, without similar characteristics and financial instrument influenced by change in similar economy or other conditions, therefore, we believe that our concentrated risks are limited.

1. Market risk

(1) Foreign exchange risk

The Company's main business is operated in domestic and settled with RMB. But the Company's future foreign currency transaction (the money of account for foreign currency assets and liabilities and foreign currency transaction mainly is U.S. dollar) still faces with foreign exchange risk. Finance department in the headquarter is responsible for supervising scale of foreign currency transaction as well as foreign currency assets and liabilities to reduce foreign exchange risk as far as possible; therefore, the Company will likely sign forward foreign exchange contract or currency swap contract to evade foreign exchange risk. In 2014 and 2013, the Company has not signed any forward foreign exchange contract or currency swap contract.

On December 31, 2014 and December 31, 2013, the Company has no foreign current financial assets and liabilities.

(2) Interest rate risk

Interest rate risk of the Company is mainly from bank loan, bonds payables and other interest-bearing debt. Financial liabilities with floating interest rate make the Company face with interest rate risk of cash flow, and financial liabilities with fixed interest rate make the Company face with interest rate risk of fair value. The Company determines the relative proportion of contracts with fixed interest rate and floating interest rate according to current market environment. On December 31, 2014, the Company's interest-bearing debt is short-term loans with fixed interest rate.

2. Credit risk

The Company manages credit risk according to portfolio classification. Credit risk is mainly from deposit in bank, accounts receivable, other accounts receivable and notes receivable, etc.

The Company deposits its cash mainly in nationalized banks and other medium and large listed banks, so the Company believes there are no significant credit risks and any significant loss caused by breach of contract of the banks.

Furthermore, for accounts receivable, other accounts receivable and notes receivable, the Company has developed relevant policies to control credit risk. The Company evaluates the credit of client and sets corresponding credit period based on financial conditions of client, possibility of obtaining guarantee from a third party, credit record and other factors, such as current market condition. The Company will regularly supervise credit record of client, for client with poor credit record, the Company will request a payment in written, short credit period or cancel credit period to ensure the overall credit risk in controllable range.

(1) *In case that available things pledged or other credit enhancement are not considered, the maximum risk exposed to financial assets and items out of financial statement on the date of balance sheet:*

| Name of project | Ending | Beginning |
|--|--------------------------------|--------------------------------|
| Items in financial statement: | | |
| Cash and cash equivalents | 992,039,797.49 | 1,221,745,537.34 |
| Notes receivable | 56,961,607.46 | 51,959,892.07 |
| Accounts receivable | 1,489,756,053.34 | 1,140,516,249.62 |
| Other accounts receivable | <u>166,949,095.39</u> | <u>140,974,417.13</u> |
| Subtotal | <u><u>2,705,706,553.68</u></u> | <u><u>2,555,196,096.16</u></u> |
| Items out of financial statement: | | |
| None | _____ | _____ |
| Total | <u><u>2,705,706,553.68</u></u> | <u><u>2,555,196,096.16</u></u> |

For client with poor credit record, if necessary, the Company will require cash deposit, pledge or guarantee and other credit enhancement to reduce the exposure risks to acceptable level. On December 31, 2014, there are no information on relevant credit enhancement to be disclosed for the financial assets of the Company (On December 31, 2014: None).

(2) Information for financial assets overdue and impaired:

| Name of project | Ending amount | Beginning amount |
|-----------------------------------|-------------------------|-------------------------|
| Accounts receivable: | | |
| Not overdue and not impaired | 882,687,159.38 | 554,355,384.92 |
| Overdue but not impaired | | |
| Impaired | 733,471,968.36 | 687,582,346.50 |
| Subtract: Impairment provision | <u>126,403,074.40</u> | <u>101,421,481.80</u> |
| Subtotal | <u>1,489,756,053.34</u> | <u>1,140,516,249.62</u> |
| Other accounts receivable: | | |
| Not overdue and not impaired | 26,339,572.79 | 11,502,150.53 |
| Overdue but not impaired | | |
| Impaired | 168,856,506.62 | 153,685,643.02 |
| Subtract: Impairment provision | <u>28,246,984.02</u> | <u>24,213,376.42</u> |
| Subtotal | <u>166,949,095.39</u> | <u>140,974,417.13</u> |
| Total | <u>1,656,705,148.73</u> | <u>1,281,490,666.75</u> |

① Credit quality information for financial assets not overdue and not impaired

| Name of project | Ending balance | Beginning balance |
|---------------------------|-----------------------|-----------------------|
| Accounts receivable | 882,687,159.38 | 554,355,384.92 |
| Other accounts receivable | <u>26,339,572.79</u> | <u>11,502,150.53</u> |
| Total | <u>909,026,732.17</u> | <u>565,857,535.45</u> |

② Individual financial assets impaired

If there are objective evidence showing for financial assets rather than financial assets recorded at fair value with change included in the current profit and loss, after initial recognition, one or several conditions occur and such conditions influence estimated future cash flow of financial assets and the influence can be reliably calculated, it is considered that the financial assets are impaired. The Company judges impairment of financial assets considering factors specified in section “III [10(3)] and III [11]”. On December 31, 2014, information for financial assets which have been impaired for single asset without things pledged or other credit enhancement (On December 31, 2014: None).

| Age | Ending amount | | beginning amount | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | Book balance | Impairment loss | Book balance | Impairment loss |
| Accounts receivable: | | | | |
| Evaluated in the manner of portfolio | 733,471,968.36 | 126,403,074.40 | 687,582,346.50 | 101,421,481.80 |
| Evaluated in the manner of single account | — | — | — | — |
| Subtotal | <u>733,471,968.36</u> | <u>126,403,074.40</u> | <u>687,582,346.50</u> | <u>101,421,481.80</u> |
| Other accounts receivable: | | | | |
| Evaluated in the manner of portfolio | 168,856,506.62 | 28,246,984.02 | 153,685,643.02 | 24,213,376.42 |
| Evaluated in the manner of single account | — | — | — | — |
| Subtotal | <u>168,856,506.62</u> | <u>28,246,984.02</u> | <u>153,685,643.02</u> | <u>24,213,376.42</u> |
| Total | <u>902,328,474.98</u> | <u>154,650,058.42</u> | <u>841,267,989.52</u> | <u>125,634,858.22</u> |

(3) *Financial assets or non-financial assets recognized through things pledged or other credit enhancement in current period*

The Company has no financial assets or non-financial assets recognized through things pledged or other credit enhancement in current period.

3. Liquidity risk

Each subsidiary of the Company is responsible for its own cash flow prospection. Finance department in the headquarter summarizes cash flow prospection of each subsidiary, and continuously supervises short-term and long-term fund demand at the group level, to ensure abundant cash resources and negotiable securities ready for realization; meanwhile, it continuously supervises whether regulations on loan agreement are met, obtains the commitment from main financing institution to provide abundant reserve funds to meet short-term and long-term fund demand.

On the date of balance sheet date, various financial liabilities are disclosed with undiscounted contract cash flow by maturity date as follows:

| Items | Ending amount | | | | Total |
|--|------------------------------|-----------|-----------|--------------|------------------------------|
| | Within one year | 1–2 years | 2–5 years | Over 5 years | |
| Short-term loans (including interest) | 36,179,708.34 | | | | 36,179,708.34 |
| Notes payable | 50,894,773.85 | | | | 50,894,773.85 |
| Accounts payable | 756,364,565.20 | | | | 756,364,565.20 |
| Dividends payable | 2,097,812.00 | | | | 2,097,812.00 |
| Other accounts payable | <u>69,489,623.26</u> | | | | <u>69,489,623.26</u> |
| Total | <u><u>915,026,482.65</u></u> | | | | <u><u>915,026,482.65</u></u> |

| Items | Beginning amount | | | | Total |
|--|------------------------------|-----------|-----------|--------------|------------------------------|
| | Within one year | 1–2 years | 2–5 years | Over 5 years | |
| Short-term loans (including interest) | 25,548,500.00 | | | | 25,548,500.00 |
| Notes payable | 122,016,661.66 | | | | 122,016,661.66 |
| Accounts payable | 643,649,085.12 | | | | 643,649,085.12 |
| Other accounts payable | <u>67,379,148.22</u> | | | | <u>67,379,148.22</u> |
| Total | <u><u>858,593,395.00</u></u> | | | | <u><u>858,593,395.00</u></u> |

XI. DISCLOSURE OF FAIR VALUE

1. Ending fair value of assets and liabilities accounted at fair value

Unit: Yuan

| Items | Fair value accounting at the first level | Ending fair value | | Total |
|---|--|--|--|-------|
| | | Fair value accounting at the second level | Fair value accounting at the third level | |
| I. Persistent fair value accounting | — | — | — | — |
| II. Non-persistent fair value accounting | — | — | — | — |

2. Basis for determining the market price of items persistently and non-persistently accounted with fair value at the first level

3. For items persistently and non-persistently accounted with fair value at the second level, qualitative and quantitative information on valuation technique and important parameters used

4. For items persistently and non-persistently accounted with fair value at the third level, qualitative and quantitative information on valuation technique and important parameters used

5. For items persistently accounted with fair value at the third level, adjusting information between beginning and ending book value and sensitivity analysis on unobservable parameters

6. For items persistently accounted with fair value, transformation among levels in 2014, reason for transformation, policies for determining transformation date

7. Change in valuation technique in 2014 and the reason for change

8. Information for fair value of financial assets and liabilities not accounted with fair value

9. Other

XII. ASSOCIATED PARTY AND THEIR TRANSACTIONS

1. The parent company of the Company

| Name of the parent company | Registration place | Nature of business | Registered capital | Voting ratio in the Company | Shareholding ratio in the Company |
|----------------------------|--------------------|----------------------|--------------------|-----------------------------|-----------------------------------|
| The 15th Institute, CETC | Beijing City | Computing technology | 84,851,400 Yuan | 37.86% | 37.86% |

Details of the parent of the Company

The final controller of the Company is the 15th Institute, CETC.

Other note:

CETC Investment Holdings Co., Ltd, a wholly-owned subsidiary of CETC directly holds 3.82% equity of the Company.

2. Subsidiaries of the Company

See note 9 for information for subsidiaries of the Company and equity in other entities.

3. Information for cooperative and affiliated business

See note 9 — equity in other entities for significant cooperative or affiliated business.

Information for other cooperative or affiliated business which form balance through related transaction in the current or previous periods:

| Name of cooperative and affiliated | Relationship with the Company |
|------------------------------------|-------------------------------|
|------------------------------------|-------------------------------|

Other note:

There is no cooperative or affiliated business which form balance through related transaction in the current or previous periods.

4. Information for other associated party

| Name of other associated party | Relationship between other associated party and the Company |
|---|--|
| The 28th Research Institute of China Electronics Technology Group Corporation (The 28th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| China Academy of Electronics and Information Technology (China Academy of Electronics) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 34th Research Institute of China Electronics Technology Group Corporation (The 34th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 10th Research Institute of China Electronics Technology Group Corporation (The 10th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC Integrated Information Engineering Research Center (Informatization Research Center) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 54th Research Institute of China Electronics Technology Group Corporation (The 54th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 13th Research Institute of China Electronics Technology Group Corporation (The 13th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 14th Research Institute of China Electronics Technology Group Corporation (The 14th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 22nd Institute of CETC, Tianbo Information System Engineering (Tianbo Engineering) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 30th Research Institute of China Electronics Technology Group Corporation (The 30th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 33th Research Institute of China Electronics Technology Group Corporation (The 33th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC International Trading Co., Ltd. (CETC International Trading) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 11th Research Institute of China Electronics Technology Group Corporation (The 11th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC Changjiang Data Co., Ltd. (Changjiang Data) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| The 27th Research Institute of China Electronics Technology Group Corporation (The 27th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |

| Name of other associated party | Relationship between other associated party and the Company |
|---|--|
| The 23rd Research Institute of China Electronics Technology Group Corporation (The 23rd Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Hebei Far East Harris Communication Co., Ltd. (Far East Harris) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Hangzhou Hikvision Digital Technology Co., Ltd. (Hikvision) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Chengdu Westone Co., Ltd. (Chengdu Westone) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Beijing Taiji Xianxing Electronic Technology Co., Ltd. (Taiji Xianxing) | Other affiliated enterprises controlled by the same controlling shareholder |
| Beijing Taiji Huabei Property Management Co., Ltd. (Huabei Property) | Other affiliated enterprises controlled by the same controlling shareholder |
| Beijing Huaxing Taiji Information Technology Co., Ltd. (Huaxing Taiji) | Other affiliated enterprises controlled by the same controlling shareholder |
| Beijing Zunguan Science & Technology Co., Ltd. (Zunguan Science & Technology) | Other affiliated enterprises controlled by the same controlling shareholder |
| Beijing Xin'an Huaning Information Technology Co., Ltd. (Xin'an Huaning) | Other affiliated enterprises controlled by the same controlling shareholder |

Other note:

5. Associated transactions

(1) Associated transactions of merchandise purchase/receiving labor services

Table of merchandise purchase/receiving labor services

Unit: Yuan

| Associated Party | Content of Associated transaction | Year 2014 | Year 2013 |
|------------------------------|--|---------------|--------------|
| The 15th Research Institute | Purchase of goods | 24,132,959.57 | 1,156,538.41 |
| Hikvision | Purchase of goods | 6,079,051.82 | 5,473,820.59 |
| Huaxing Taiji | Purchase of goods. Receiving labor services | 3,288,479.07 | 470,679.69 |
| Chengdu Westone | Purchase of goods | 2,452,991.46 | |
| Zunguan Science & Technology | Purchase of goods | 245,169.81 | 104,339.63 |
| The 30th Research Institute | Purchase of goods | 129,600.00 | |
| The 54th Research Institute | Purchase of goods | 98,461.54 | 558,921.37 |

Table of selling goods/rendering service

Unit: Yuan

| Associated Party | Content of Associated transaction | Year 2014 | Year 2013 |
|---------------------------------|--|------------------|------------------|
| The 28th Research Institute | Supply of goods | 78,190,869.91 | 97,607,934.48 |
| The 15th Research Institute | Supply of goods, service | 26,003,455.67 | 38,984,893.67 |
| The 10th Research Institute | Supply of goods | 4,125,833.50 | 3,302,456.69 |
| Electron Research Institute | Supply of goods | 2,776,885.60 | 237,932.16 |
| The 11th Research Institute | Supply of goods | 1,197,628.19 | 697,975.94 |
| The 20th Research Institute | Supply of goods | 669,497.25 | |
| The 54th Research Institute | Supply of goods | 483,875.93 | 67,202.77 |
| CETC | Supply of goods | 446,862.45 | 25,915.85 |
| Far East Harris | Supply of goods | 421,852.35 | |
| Informatization Research Center | Supply of goods | 94,339.62 | 20,000.00 |
| Tianbo Engineering | Supply of goods | 28,011.11 | |
| The 3th Research Institute | Supply of goods | 4,391.71 | |
| The 30th Research Institute | Supply of goods | 1,239.32 | |
| The 27th Research Institute | Supply of goods | | 3,376,410.28 |
| Chengdu Westone | Supply of goods | | 591,678.67 |
| The 22nd Research Institute | Supply of goods | | 214,147.90 |
| Zunguan Science & Technology | Supply of goods | | 84,905.66 |
| Kingbase | Supply of goods | | 37,735.85 |
| Huabei Property | Supply of goods | | 27,423.75 |
| The 34th Research Institute | Supply of goods | | 27,125.33 |
| Huaxing Taiji | Supply of goods | | 13,517.06 |
| CETC International Trading | Supply of goods | | 854.58 |

Related transactions include sales of goods, rendering and receiving of services

(2) Related trusteeship/contracting*Trusteeship/contracting:**Unit: Yuan*

| Name of client/ contracting-out party | Name of entrusted/ contracting party | Type of entrusted/ contracted asset | Starting date of trusteeship/ contracting | Termination date of trusteeship/ contracting | Pricing basis for trusteeship/ contracting fee | Trusteeship/ contracting revenue recognized in report period |
|---|---|--|--|---|--|--|
|---|---|--|--|---|--|--|

Related trusteeship/contracting-out

*Entrustment/contracting-out:**Unit: Yuan*

| Name of client/ contracting-out party | Name of entrusted/ contracting party | Type of entrusted/ contracted asset | Starting date of trusteeship/ contracting | Termination date of trusteeship/ contracting | Pricing basis for trusteeship/ contracting fee | Trusteeship/ contracting revenue recognized in report period |
|---|---|--|--|---|--|--|
|---|---|--|--|---|--|--|

Related trusteeship/contracting:

(3) Leasing of associated transactions*The company is as lessor:**Unit: Yuan*

| Name of the lessor | Leased asset types | Rental expenses in 2014 | Rental expenses in 2013 |
|--------------------|--------------------|----------------------------|----------------------------|
|--------------------|--------------------|----------------------------|----------------------------|

*The company is as lessee:**Unit: Yuan*

| Name of the lessor | Leased asset types | Rental expenses in 2014 | Rental expenses in 2013 |
|--------------------------------|--------------------|----------------------------|----------------------------|
| The 15th Research Institute | Operating lease | 6,508,800.00 | 6,508,800.00 |

Information for related-party lease

(4) Related guarantee

The company as guarantor

Unit: Yuan

| Secured party | Amount secured | Starting date of guarantee | Maturity date of guarantee | If guarantee is performed |
|----------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|
|----------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|

The company as secured party

Unit: Yuan

| Guarantor | Amount secured | Starting date of guarantee | Maturity date of guarantee | If guarantee is performed |
|------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|
|------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|

Related guarantee

(5) Inter-associate lending

Unit: Yuan

| Associated Party | Amount borrowed | Starting date | Maturity date | Description |
|-------------------------|------------------------|----------------------|----------------------|--------------------|
|-------------------------|------------------------|----------------------|----------------------|--------------------|

Loans from other affiliated party

Loan for other affiliated party

(6) Asset transfer and debt restructuring of affiliated party

Unit: Yuan

| Associated Party | Content of Associated transaction | Year 2014 | Year 2013 |
|-------------------------|--|------------------|------------------|
|-------------------------|--|------------------|------------------|

(7) Remuneration of key management personnel

Unit: Yuan

| Items | Year 2014 | Year 2013 |
|-------|---------------------|---------------------|
| Total | <u>6,882,000.00</u> | <u>5,425,900.00</u> |

*(8) Other related party transaction***6. Receivables and payables for and from affiliated party***(1) Receivables*

Unit: Yuan

| Name of project | Associated Party | Ending balance | | Beginning balance | |
|---------------------------|-----------------------------|----------------|------------------------|-------------------|------------------------|
| | | Book balance | Provision for bad debt | Book balance | Provision for bad debt |
| Accounts receivable | The 28th Research Institute | 46,345,696.45 | 1,402,953.44 | 19,943,119.41 | 165,240.92 |
| Accounts receivable | The 15th Research Institute | 17,113,483.35 | 1,899,547.98 | 10,566,022.52 | 976,129.66 |
| Accounts receivable | The 20th Research Institute | 792,201.68 | 19,805.04 | | |
| Accounts receivable | The 11th Research Institute | 634,180.98 | 25,280.22 | 422,786.82 | |
| Accounts receivable | Electron Research Institute | 624,913.27 | 13,808.77 | 275,708.50 | 1,448.99 |
| Accounts receivable | The 10th Research Institute | 404,785.95 | 10,119.65 | | |
| Accounts receivable | The 54th Research Institute | 300,402.69 | 7,510.07 | | |
| Accounts receivable | Chengdu Westone | 109,409.89 | 5,470.49 | 109,409.89 | |
| Accounts receivable | Taiji Ao'Tian | 84,000.00 | 4,200.00 | 84,000.00 | |
| Accounts receivable | Tianbo Engineering | 72,951.05 | 3,647.55 | 72,951.05 | 1,823.78 |
| Accounts receivable | The 37th Research Institute | 15,293.33 | 683.79 | 413,249.19 | 45.76 |
| Accounts receivable | Taiji Xianxing | 5,000.00 | 5,000.00 | 5,000.00 | 5,000.00 |
| Accounts receivable | The 10th Research Institute | | | 345,191.75 | |
| Accounts receivable | The 34th Research Institute | | | 36,944.18 | 2,743.08 |
| Accounts receivable | Huabei Property | | | 849.06 | |
| Advance payment | Hikvision | 625,897.00 | | 74,655.00 | |
| Advance payment | The 34th Research Institute | 5,947.70 | | 5,947.70 | |
| Other accounts receivable | The 15th Research Institute | 1,600,000.00 | 56,750.00 | 670,000.00 | 16,750.00 |
| Other accounts receivable | The 10th Research Institute | 20,000.00 | 3,000.00 | 20,000.00 | 1,000.00 |
| Other accounts receivable | Tianbo Engineering | | | 150,000.00 | 3,750.00 |

(2) Payables

Unit: Yuan

| Name of project | Associated Party | Ending book balance | Beginning book balance |
|------------------------|---------------------------------|---------------------|------------------------|
| Accounts payable | The 15th Research Institute | 19,412,586.75 | 1,559,586.75 |
| Accounts payable | Hikvision | 1,832,571.30 | 1,247,317.00 |
| Accounts payable | Chengdu Westone | 1,594,000.00 | 364,000.00 |
| Accounts payable | Zunguan Science & Technology | 200,000.00 | 78,000.00 |
| Accounts payable | Kingbase | 29,106.00 | |
| Accounts payable | The 54th Research Institute | | 653,938.00 |
| Accounts payable | Huaxing Taiji | | 282,354.00 |
| Advance receipt | The 28th Research Institute | 50,184,128.43 | 40,497,301.63 |
| Advance receipt | The 15th Research Institute | 20,610,717.89 | 7,141,880.70 |
| Advance receipt | CETC | 9,797,218.19 | 4,783,018.87 |
| Advance receipt | Electron Research Institute | 2,227,852.77 | 75,678.89 |
| Advance receipt | The 11th Research Institute | 545,895.24 | 1,420,007.29 |
| Advance receipt | The 54th Research Institute | 453,838.91 | 455,319.38 |
| Advance receipt | Informatization Research Center | 317,327.17 | 317,327.17 |
| Advance receipt | The 3rd Research Institute | 190,651.03 | |
| Advance receipt | The 27th Research Institute | 177,800.00 | 281,863.48 |
| Advance receipt | Far East Harris | 74,818.64 | 496,670.99 |
| Advance receipt | Huabei Property | 27,438.28 | |
| Advance receipt | Changjiang Data | 16,605.82 | 16,605.82 |
| Advance receipt | The 34th Research Institute | 5,454.76 | |
| Advance receipt | Kingbase | 2,264.15 | 2,264.15 |
| Advance receipt | The 30th Research Institute | | 1,239.32 |
| Other accounts payable | The 15th Research Institute | 15,713,458.47 | 1,373,895.64 |
| Other accounts payable | The 23rd Research Institute | 200,000.00 | |
| Other accounts payable | The 33rd Research Institute | 110,000.00 | 110,000.00 |
| Other accounts payable | Tianbo Engineering | | 50,000.00 |
| Other accounts payable | Taiji Xianxing | 40.93 | 40.93 |

7. Commitments of Associated transactions**8. Other****XIII. SHARE-BASED PAYMENT****1. Overall condition of share-based payment**

Applicable Inapplicable

2. Information for share-based payment settled in equity

Applicable Inapplicable

3. Information for share-based payment settled in cash

Applicable Inapplicable

4. Information for changing, terminating share-based payment

None

5. Other

None

XIV. COMMITMENTS AND CONTINGENCIES**1. Important commitments**

Important commitments on the date of balance sheet date

None

2. Contingencies

(1) Important contingencies on the date of balance sheet date

None

(2) The Company should describe there are no important contingencies to be disclosed

The Company has no important contingencies to be disclosed.

3. Other

None

XV. MATTERS AFTER THE DATE OF BALANCE SHEET DATE

1. Important non-adjusting matters

Unit: Yuan

| Items | Contents | Effects on financial condition and operating result | Reason for inestimable influence amount |
|-----------------------|--|---|---|
| Restricted stock plan | On Feb 11, 2015, in the 12th Session, the fourth Board of Directors, Resolution on Adjusting the List of Incentive Objects in Restricted Stock Plan, Resolution on Granting Restricted Stock Plan to Incentive Objects were approved, the Board of Directors believed that the granting conditions in restricted stock plan were met and agreed to confirm the granting date is Feb 11, 2015, agreed to grant 2,647,219 restricted stocks to 153 incentive objects. The price of restricted stock was 16.60 Yuan/stock, and the lockup period of the first restricted stock plan was 24 months from the granting date. | 33,717,054.00 | |

2. Information for distribution of profits

Unit: Yuan

3. Sales return

4. Other matters described after the date of balance sheet date

XVI. OTHER IMPORTANT MATTERS

1. Correction of accounting error in previous period

(1) Retrospective restatement

Unit: Yuan

| Correction of accounting error | Treatment procedure | Name of project in each affected comparing periods | Cumulative effects |
|--------------------------------|---------------------|--|--------------------|
|--------------------------------|---------------------|--|--------------------|

(2) Prospective application method

| Correction of accounting error | Approval procedure | Reason for adopting prospective application method |
|--------------------------------|--------------------|--|
|--------------------------------|--------------------|--|

2. Debt restructuring

None

3. Assets exchange

(1) Non-monetary assets exchange

None

(2) Other assets exchange

None

4. Pension plan

None.

5. Discontinuing operation*Unit: Yuan*

| Items | Income | Cost | Total profit | Income tax expense | Retained profits | Profits generated from discontinuing operation attributable to the parent |
|--------------|---------------|-------------|---------------------|---------------------------|-------------------------|--|
|--------------|---------------|-------------|---------------------|---------------------------|-------------------------|--|

Other note:

6. Segment information*(1) Basis for determining and accounting policies of reportable segments*

None

(2) Financial information of reportable segments

None

(3) If the Company has no reportable segments or cannot disclose total assets and liabilities of each reportable segments, the Company should explain the reason.

None

(4) Other note

None

7. Other important transaction and matter which influence the decision of investor

None

8. Other

None

XVII. NOTES TO MAIN ITEMS IN THE PARENT COMPANY FINANCIAL STATEMENTS

1. Accounts receivable

(1) Disclosure of accounts receivable on classification

Unit: Yuan

| Classification | Book balance | | Ending balance | | | Book balance | | Beginning balance | | |
|--|-------------------------|----------------|-----------------------|------------------------|-------------------------|-------------------------|----------------|----------------------|------------------------|-----------------------|
| | Amount | Proportion | Amount | Provision for bad debt | | Amount | Proportion | Amount | Provision for bad debt | |
| | | | | Proportion of | | | | | Proportion of | |
| | | | Amount | provision | Book value | | | Amount | provision | Book value |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 1,265,957,439.97 | 100.00% | 112,654,786.39 | 8.90% | 1,153,302,653.58 | 1,010,685,081.70 | 100.00% | 87,454,868.86 | 8.66% | 923,230,212.84 |
| Total | <u>1,265,957,439.97</u> | <u>100.00%</u> | <u>112,654,786.39</u> | <u>8.90%</u> | <u>1,153,302,653.58</u> | <u>1,010,685,081.70</u> | <u>100.00%</u> | <u>87,454,868.86</u> | <u>8.66%</u> | <u>923,230,212.84</u> |

Accounts receivable with significant single amount and provision for bad debt individually at the end

Applicable Inapplicable

The accounts receivable accrued for provision of bad debt by age analysis method in portfolio:

Applicable Inapplicable

Unit: Yuan

| Age | Ending balance | | Proportion of provision |
|--------------------------|-------------------------|------------------------|-------------------------|
| | Accounts receivable | Provision for bad debt | |
| Within 1 year | | | |
| 0–6 months | | | |
| (including 6 months) | 649,107,546.73 | — | |
| 7–12 months | 186,782,153.03 | 4,669,553.80 | 2.50% |
| Subtotal (within 1 year) | 835,889,699.76 | 4,669,553.80 | 0.56% |
| 1–2 years | 202,556,730.30 | 10,127,836.52 | 5.00% |
| 2–3 years | 101,824,221.58 | 15,273,633.23 | 15.00% |
| 3–4 years | 40,305,062.34 | 14,106,771.82 | 35.00% |
| 4–5 years | 25,111,941.96 | 20,089,553.57 | 80.00% |
| Over 5 years | <u>48,387,437.45</u> | <u>48,387,437.45</u> | 100.00% |
| Total | <u>1,254,075,093.39</u> | <u>112,654,786.39</u> | |

Details for confirmation of this portfolio:

The accounts receivable accrued for provision of bad debt by the percentage of balance method in portfolio:

Applicable Inapplicable

The accounts receivable accrued for provision of bad debt by other method in portfolio:

| Name of portfolio | Ending balance | | Proportion of provision |
|---|---------------------|------------------------|-------------------------|
| | Accounts receivable | Provision for bad debt | |
| Transaction object relationship portfolio | 11,882,346.58 | | |

(2) Bad debt recovery and bad debt allowance

This year, the total of provision for bad debt is 25,199,917.53 Yuan; and the total amount of bad debt recovery is 0.00 Yuan.

Including, significant recovered amount in this year:

Unit: Yuan

| Name of company | Recovered amount | Recovery method |
|------------------------|-------------------------|------------------------|
| Total | <u>0.00</u> | — |

(3) No write-off of bad debts occurred during this fiscal year

Unit: Yuan

| Items | Write-off amount |
|--------------|-------------------------|
|--------------|-------------------------|

Including, information for writing off significant accounts receivable:

Unit: Yuan

| Name of company | Nature of receivables | Write-off amount | Reason | Write-off procedure | Whether the amount is caused by associated transactions |
|------------------------|------------------------------|-------------------------|---------------|----------------------------|--|
| Total | — | <u>0.00</u> | — | — | — |

Details of writing off accounts receivable:

(4) Information for the ending balance of top 5 accounts receivable sorted by the debtor

The total ending balance of top 5 accounts receivable is 125,103,798.80 Yuan, accounting for 9.88% of the total ending balance of accounts receivable, the total amount of corresponding provision for bad debt is 3,124,849.53 Yuan.

(5) Accounts receivable derecognized because of transfer of financial assets

None

(6) Amount of assets or liabilities for which accounts receivable is transferred but continue involve in

None

Other note:

2. Other accounts receivable

(1) Disclosure of other accounts receivable on classification

Unit: Yuan

| Classification | Book balance | | Ending balance | | | Book balance | | Beginning balance | | |
|--|-----------------------|----------------|----------------------|------------------------|-----------------------|-----------------------|----------------|----------------------|------------------------|-----------------------|
| | Amount | Proportion | Amount | Provision for bad debt | | Amount | Proportion | Amount | Provision for bad debt | |
| | | | | Proportion of | | | | | Proportion of | |
| | | | Amount | provision | Book value | | | Amount | provision | Book value |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 216,608,702.81 | 100.00% | 26,223,275.74 | 12.11% | 190,385,427.07 | 127,890,622.92 | 100.00% | 22,025,991.50 | 17.22% | 105,864,631.42 |
| Total | <u>216,608,702.81</u> | <u>100.00%</u> | <u>26,223,275.74</u> | <u>12.11%</u> | <u>190,385,427.07</u> | <u>127,890,622.92</u> | <u>100.00%</u> | <u>22,025,991.50</u> | <u>17.22%</u> | <u>105,864,631.42</u> |

Other accounts receivable with significant single amount and provision for bad debt individually at the end:

Applicable Inapplicable

The other accounts receivable accrued for provision of bad debt by age analysis method in portfolio:

Applicable Inapplicable

Unit: Yuan

| Age | Ending balance | | Proportion of provision |
|---------------------------------|---------------------------|------------------------|-------------------------|
| | Other accounts receivable | Provision for bad debt | |
| Within 1 year | | | |
| 0-6 months (including 6 months) | | | |
| 7-12 months | 66,629,292.98 | 1,665,732.32 | 2.50% |
| | <u>16,176,433.83</u> | <u>404,410.85</u> | 2.50% |
| Sub-total (within 1 years) | 82,805,726.81 | 2,070,143.17 | 2.50% |
| 1-2 years | 21,942,702.36 | 1,097,135.12 | 5.00% |
| 2-3 years | 13,594,382.44 | 2,039,157.38 | 15.00% |
| 3-4 years | 4,809,307.65 | 1,683,257.68 | 35.00% |
| 4-5 years | 3,940,510.90 | 3,152,408.72 | 80.00% |
| Over 5 years | <u>16,181,173.68</u> | <u>16,181,173.68</u> | 100.00% |
| Total | <u>143,273,803.84</u> | <u>26,223,275.74</u> | |

Details for confirmation of this portfolio:

Other accounts receivable accrued for provision of bad debt by the percentage of balance method in portfolio:

Applicable Inapplicable

Other accounts receivable accrued for provision of bad debt by other method in portfolio:

Applicable Inapplicable

| Name of portfolio | Other account receivable | Ending balance Provision for bad debt | Proportion of provision |
|--|-----------------------------|---|----------------------------|
| Transaction object relationship portfolio | 52,442,422.95 | | |
| Nature portfolio | <u>20,892,476.02</u> | | |
| Total | <u><u>73,334,898.97</u></u> | | |

(2) Bad debt recovery and bad debt allowance in this year

This year, the amount of provision for bad debt is 4,197,284.24 Yuan; the recovered amount is 0.00 Yuan.

Including, significant recovered amount:

Unit: Yuan

| Name of company | Recovered amount | Recovery method |
|-----------------|---------------------|-----------------|
| Total | <u><u>0.00</u></u> | — |

(3) Details of writing off other receivables

Unit: Yuan

| Items | Write-off amount |
|-------|------------------|
|-------|------------------|

Of which, details of writing off significant receivables:

Unit: Yuan

| Name of company | Nature of other accounts receivable | Write-off amount | Reason | Write-off procedure | Amount from associated transaction |
|-----------------|-------------------------------------|------------------|--------|---------------------|------------------------------------|
| Total | — | <u>0.00</u> | — | — | — |

Details of writing off other accounts receivable:

(4) Other accounts receivable sorted by nature

Unit: Yuan

| Nature | Ending book balance | Beginning book balance |
|---|-----------------------|------------------------|
| Age portfolio | 143,273,803.84 | 115,814,993.50 |
| Transaction object relationship portfolio | 52,442,422.95 | 1,200,000.00 |
| Nature portfolio | <u>20,892,476.02</u> | <u>10,875,629.42</u> |
| Total | <u>216,608,702.81</u> | <u>127,890,622.92</u> |

(5) Top 5 ending balance of other accounts receivable sorted by the debtor

Unit: Yuan

| Name of company | Nature | Ending balance | Age | Proportion in total ending balance of other accounts receivable | Ending balance of provision for bad debt |
|---|-------------------|----------------------|----------------|---|--|
| Beijing Information Resource Management Center | Performance bond | 10,229,604.00 | Within 1 year | 4.72% | 255,740.10 |
| Dongcheng District Public Security Bureau, Beijing Municipal Public Security Bureau | Performance bond | 4,808,996.70 | Within 2 years | 2.22% | 217,789.86 |
| China Cronicon Import and Export Corporation | Guarantee deposit | 4,443,603.75 | Over 5 years | 2.05% | 4,443,603.75 |
| Zhengzhou Railway Bureau Common Resource | Performance bond | 3,123,062.00 | 2-3 years | 1.44% | 468,459.30 |
| Transaction Management Committee Office, Zhenhai District, Ningbo City | Tender bond | <u>3,000,000.00</u> | Within 1 year | <u>1.38%</u> | <u>75,000.00</u> |
| Total | — | <u>25,605,266.45</u> | — | <u>11.81%</u> | <u>5,460,593.01</u> |

*(6) Accounts receivables involving in government grants**Unit: Yuan*

| Name of company | Name of government grant project | Ending balance | Ending age | Estimated recovery time, amount and base |
|-----------------|----------------------------------|----------------|------------|--|
| Total | — | <u>0.00</u> | — | — |

(7) Other accounts receivable derecognized because of transfer of financial assets

None

(8) Amount of assets or liabilities for which other accounts receivable is transferred but continue involve in

None

Other note:

3. Long-term equity investment*Unit: Yuan*

| Items | Book balance | Ending balance | Book value | Beginning balance | | Book value |
|---|-----------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|
| | | Impairment provision | | Book balance | Impairment provision | |
| Investment in subsidiary | 576,349,206.16 | 0.00 | 576,349,206.16 | 576,349,206.16 | 0.00 | 576,349,206.16 |
| Investment in affiliated and cooperative enterprise | <u>112,771,391.45</u> | <u>0.00</u> | <u>112,771,391.45</u> | <u>110,377,846.94</u> | <u>0.00</u> | <u>110,377,846.94</u> |
| Total | <u>689,120,597.61</u> | <u>0.00</u> | <u>689,120,597.61</u> | <u>686,727,053.10</u> | <u>0.00</u> | <u>686,727,053.10</u> |

(1) Investment in subsidiary

Unit: Yuan

| The invested unit | Beginning balance | Increase in 2014 | Decrease in 2014 | Ending balance | Impairment provision in this year | Ending balance of impairment provision |
|---|-----------------------|------------------|------------------|-----------------------|-----------------------------------|--|
| Beijing Taiji Information System Technology Co., Ltd. | 50,459,200.00 | | | 50,459,200.00 | | |
| Beijing Taiji Network Technology Co., Ltd. | 5,000,000.00 | | | 5,000,000.00 | | |
| Shenzhen Taiji Building Technology Co., Ltd. | 400,000.00 | | | 400,000.00 | | |
| Taiji Computer (Xi'An) Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | | |
| Hainan Taiji Information Technology Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | | |
| Beijing Taiji Cloud Computer Technology Development Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | | |
| Beijing Smartdot Science and Technology Ltd. | 490,490,006.16 | | | 490,490,006.16 | | |
| Total | 576,349,206.16 | 0.00 | 0.00 | 576,349,206.16 | 0.00 | 0.00 |

(2) Investment in affiliated and cooperative enterprise

Unit: Yuan

| Investing company | Beginning balance | Additional investment | Negative investment | Increase/decrease in current period | | | | | | Other | Ending balance | Impairment provision |
|--|-----------------------|-----------------------|---------------------|--|--------------------------------------|------------------------|------------------------------------|----------------------|-------------|-------------|-----------------------|----------------------|
| | | | | Profit and loss on investments under equity method | Adjusting other comprehensive income | Change in other equity | Declaring cash dividends or profit | Impairment provision | Other | | | |
| I. Cooperative enterprises | | | | | | | | | | | | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | 59,978,481.96 | | | (25,013.96) | | | | | | | 59,953,468.00 | |
| Subtotal | 59,978,481.96 | 0.00 | 0.00 | (25,013.96) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 59,953,468.00 | 0.00 |
| II. Affiliated business | | | | | | | | | | | | |
| Beijing Kingbase Information Technologies Inc. | 50,399,364.98 | | | 2,023,998.24 | | | | | | | 52,423,363.22 | |
| Sinkiang Intelligence R&D Center | | 400,000.00 | | (5,439.77) | | | | | | | 394,560.23 | |
| Subtotal | 50,399,364.98 | 400,000.00 | 0.00 | 2,018,558.47 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 52,817,923.45 | 0.00 |
| Total | 110,377,846.94 | 400,000.00 | 0.00 | 1,993,544.51 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 112,771,391.45 | 0.00 |

*(3) Other note***4. Operating income and cost***Unit: Yuan*

| Items | Year 2014 | | Year 2013 | |
|---------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Income | Cost | Income | Cost |
| Main business | <u>3,475,787,601.44</u> | <u>3,011,819,325.10</u> | <u>2,793,403,164.65</u> | <u>2,341,120,092.86</u> |
| Total | <u><u>3,475,787,601.44</u></u> | <u><u>3,011,819,325.10</u></u> | <u><u>2,793,403,164.65</u></u> | <u><u>2,341,120,092.86</u></u> |

Other note:

5. Investment income*Unit: Yuan*

| Items | Year 2014 | Year 2013 |
|---|----------------------------|----------------------------|
| Long-term equity investment income accounted for under equity method | 1,993,544.51 | 1,826,062.69 |
| Investment incomes generated from financial assets available for sale during holding period | <u>103,247.68</u> | <u>97,402.65</u> |
| Total | <u><u>2,096,792.19</u></u> | <u><u>1,923,465.34</u></u> |

6. Other**XVIII. SUPPLEMENTARY INFORMATION****1. Details of non-recurring profit and loss of current period**

Applicable Inapplicable

Unit: Yuan

| Items | Amount | Description |
|---|----------------------|--|
| Profit or loss from disposal of non-current assets | (84,515.41) | The Company recognizes non-recurring profit and loss according to Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss (CSRC Announcement [2008] No. 43) |
| The government subsidies included in the current profits and losses (except that the government subsidiary is closely related with normal business of the company but is based on standard quota or quantitative continuous enjoyment according to the state industrial policy. | 26,036,478.63 | The Company recognizes non-recurring profit and loss according to Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss (CSRC Announcement [2008] No. 43) |
| Other non-operating income and cost except for the above | (276,530.61) | The Company recognizes non-recurring profit and loss according to Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss (CSRC Announcement [2008] No. 43) |
| Subtract: Influence of income tax | 2,570,304.26 | The Company recognizes non-recurring profit and loss according to Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss (CSRC Announcement [2008] No. 43) |
| Influence of minority equity | 991,936.63 | The Company recognizes non-recurring profit and loss according to Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss (CSRC Announcement [2008] No. 43) |
| Total | <u>22,113,191.72</u> | — |

The Company defines non-recurring profit and loss according to the definition in Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss and classifies non-recurring profit and loss listed in Explanatory Announcement No. 1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss as non-recurring profit and loss, please explain the reason.

Applicable Inapplicable

2. Net return on assets and earnings per share

| Net profit in reporting period | Weighted average net return on assets | Earnings per share | |
|--|---|---|--|
| | | Basic earnings per share (Yuan/share) | Diluted earnings per share (Yuan/share) |
| Net profit attributable to common | | | |
| Net profit attributable to common | 10.15% | 0.71 | 0.71 |
| Net profit attributable to common stockholder of the company after deducting non-recurring Profit or loss | 9.01% | 0.63 | 0.63 |

3. Differences of accounting data in financial reports prepared under overseas and Chinese accounting standards

(1) Differences of net profit and net assets disclosed in financial reports prepared under IAS and Chinese accounting standards

Applicable Inapplicable

(2) Differences of net profit and net assets disclosed in financial reports prepared under oversea and Chinese accounting standards

Applicable Inapplicable

(3) Reason for differences of accounting data in financial reports prepared under overseas and Chinese accounting standards, if the difference adjustment has been carried out for the data audited by oversea audit institution, the name of oversea audit institution should be specified.

None

4. Supplementary information on changes in accounting policies

Applicable Inapplicable

5. Other

None

The following is the English translation of an extract of the audited consolidated financial statements of the Taiji Computer Group prepared in accordance with ASBE and the disclosure requirements in the “Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting (2014 revised)” issued by CSRC for the year ended 31 December 2015, together with the accompanying notes (the “**2015 TC Financial Statements**”), which are included on pages 86 to 286 in the annual report for the year of 2015 of Taiji Computer (the “**2015 TC Annual Report**”) published on 22 March 2016.

I. AUDIT REPORT

| | |
|----------------------------------|---|
| Type of audit opinion | Standard unqualified opinion |
| Audit report signed on | March 21, 2016 |
| Audit institution name | Union Power CPAs Co., Ltd. (Special general partnership) |
| Audit report reference number | ZHSZ (2016) No. 020079 |
| Certified Public Accountant name | Wu Yuguang and Wang Yuxia |

AUDIT REPORT

ZHSZ (2016) No. 020079

Taiji Computer Corporation Limited:

We have audited the following financial statements of Taiji Computer Corporation Limited (referred to as Taiji Computer), including the consolidated balance sheet as of December 31, 2015, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in owner's equity and notes to financial statements for the year of 2015.

I. Management's Responsibility for Financial Statements

The management of Taiji Computer Corporation Limited is responsible for the preparation and fair report of the financial statements. This responsibility includes: (1) preparing financial statements in accordance with the Accounting Standards for Business Enterprises so that such financial statement fairly present the Company's financial position; (2) designing, implementing and maintaining the necessary internal control that are free from material misstatement, whether due to fraud or error.

II. CPA's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with provisions under China CPA Standards on Auditing. China CPA Standards on Auditing require that we comply with professional code of ethics, plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing auditing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The auditing procedures selected depend on the CPA's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making the risk assessments, we consider the internal control relevant to the preparation of the financial statements in order to design the appropriate auditing procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

III. Audit Opinion

In our opinion, the financial statements of Taiji Computer Corporation Limited have been prepared in accordance with the provisions under Accounting Standards for Business Enterprises, and fairly reflected the Company's financial position as of December 31, 2015 after the consolidation as well as the operating results and cash flows in 2015 after the consolidation.

Union Power CPAs Co., Ltd. (Special general partnership)

China Certified Public Accountant:

China Certified Public Accountant:

China • Beijing

March 21, 2016

II. FINANCIAL STATEMENT

The unit of the notes to financial statements is: RMB yuan

1. Consolidated balance sheet

Preparation company: Taiji Computer Corporation Limited

Unit: Yuan

| Item | Closing balance | Opening balance |
|---|--------------------------------|--------------------------------|
| Current Assets: | | |
| Monetary Capital | 1,036,110,881.22 | 992,039,797.49 |
| Settlement reserve | 0.00 | 0.00 |
| Lending funds | 0.00 | 0.00 |
| Financial Assets Measured at Fair Value and Changes Recorded into Current Period Profit or Loss | 0.00 | 0.00 |
| Financial derivative | 0.00 | 0.00 |
| Notes Receivable | 226,357,424.32 | 56,961,607.46 |
| Accounts Receivable | 2,074,200,535.81 | 1,489,756,053.34 |
| Advance Payment | 179,298,557.11 | 195,991,257.36 |
| Premium receivable | 0.00 | 0.00 |
| Account receivable reinsurance | 0.00 | 0.00 |
| Accounts receivable reinsurance reserve | 0.00 | 0.00 |
| Interests Receivable | 0.00 | 7,034,544.96 |
| Dividends Receivable | 0.00 | 0.00 |
| Other Receivables | 170,779,171.86 | 166,949,095.39 |
| Redemptory monetary capital for sale | 0.00 | 0.00 |
| Inventories | 497,447,037.78 | 103,189,910.68 |
| Assets classified as held for sale | 0.00 | 0.00 |
| Non-current Assets Due within 1 Year | 0.00 | 0.00 |
| Other Current Assets | <u>7,944,419.68</u> | <u>4,031,734.24</u> |
| Total Current Assets | <u><u>4,192,138,027.78</u></u> | <u><u>3,015,954,000.92</u></u> |

| Item | Closing balance | Opening balance |
|-------------------------------------|-------------------------|-------------------------|
| Non-current Assets: | | |
| Loans and advance payments | 0.00 | 0.00 |
| Financial Assets Available for Sale | 14,000,000.00 | 15,000,000.00 |
| Investment Held to Maturity | 0.00 | 0.00 |
| Long-term Receivables | 0.00 | 0.00 |
| Long-term Equity Investment | 173,240,370.63 | 112,771,391.45 |
| Investment Properties | 0.00 | 0.00 |
| Fixed assets | 75,074,095.77 | 32,114,318.39 |
| Construction in Progress | 342,957,651.90 | 17,535,085.09 |
| Construction Materials | 0.00 | 0.00 |
| Disposal of Fixed Assets | 0.00 | 0.00 |
| Productive Biological Assets | 0.00 | 0.00 |
| Oil and Gas Assets | 0.00 | 0.00 |
| Intangible Assets | 543,618,645.58 | 521,155,780.25 |
| Development Expenditures | 42,087,566.74 | 29,242,815.62 |
| Goodwill | 374,336,612.48 | 374,336,612.48 |
| Long-term Deferred Expenses | 8,159,238.74 | 10,194,017.18 |
| Deferred Income Tax Assets | 40,892,987.30 | 30,617,686.96 |
| Other Non-current Assets | 0.00 | 0.00 |
| Total Non-current Assets | <u>1,614,367,169.14</u> | <u>1,142,967,707.42</u> |
| Total Assets | <u>5,806,505,196.92</u> | <u>4,158,921,708.34</u> |

| Item | Closing balance | Opening balance |
|--|-------------------------|-------------------------|
| Current Liabilities: | | |
| Short-term Borrowings | 401,812,594.11 | 35,000,000.00 |
| Borrowings from central bank | 0.00 | 0.00 |
| Deposit taking and deposit taking of interbank | 0.00 | 0.00 |
| Borrowed funds | 0.00 | 0.00 |
| Financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period | 0.00 | 0.00 |
| Derivative financial liabilities | 0.00 | 0.00 |
| Notes Payable | 130,997,220.21 | 50,894,773.85 |
| Accounts Payable | 1,464,101,263.04 | 756,364,565.20 |
| Advance Receipt | 1,349,977,416.77 | 1,087,619,181.99 |
| Financial assets sold for repurchase | 0.00 | 0.00 |
| Fee and commission payable | 0.00 | 0.00 |
| Salary payable | 17,433,985.97 | 13,575,229.21 |
| Tax payable | 89,470,507.01 | 93,723,780.46 |
| Interests Payable | 0.00 | 0.00 |
| Dividends Payable | 0.00 | 2,097,812.00 |
| Other Payables | 120,169,466.44 | 69,489,623.26 |
| Dividend payable for reinsurance | 0.00 | 0.00 |
| Reserve fund for insurance contracts | 0.00 | 0.00 |
| Securities vicariously traded | 0.00 | 0.00 |
| Securities vicariously sold | 0.00 | 0.00 |
| Liabilities classified as held for sale | 0.00 | 0.00 |
| Non-current Liabilities Due within 1 Year | 0.00 | 0.00 |
| Other Current Liabilities | 0.00 | 0.00 |
| Total Current Liabilities | <u>3,573,962,453.55</u> | <u>2,108,764,965.97</u> |

| Item | Closing balance | Opening balance |
|--|--------------------------------|--------------------------------|
| Non-current Liabilities: | | |
| Long-term Borrowings | 0.00 | 0.00 |
| Bonds Payable | 0.00 | 0.00 |
| Including: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Long-term Payables | 0.00 | 0.00 |
| Long-term employee remunerations payable | 0.00 | 0.00 |
| Special Payables | 0.00 | 0.00 |
| Estimated Liabilities | 0.00 | 0.00 |
| Deferred income | 55,269,061.08 | 24,794,199.12 |
| Deferred Income Tax Liabilities | 259,522.71 | 276,824.22 |
| Other Non-current Liabilities | 0.00 | 0.00 |
| Total Non-current Liabilities | <u>55,528,583.79</u> | <u>25,071,023.34</u> |
| | | |
| Total Liabilities | <u><u>3,629,491,037.34</u></u> | <u><u>2,133,835,989.31</u></u> |
| Shareholder's Equity: | | |
| Share Capital | 415,597,227.00 | 274,411,744.00 |
| Other equity instruments | 0.00 | 0.00 |
| Including: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Capital Reserves | 961,967,812.78 | 1,047,407,103.78 |
| Less: treasury share | 44,041,028.40 | 0.00 |
| Other comprehensive income | 0.00 | 0.00 |
| Special Reserves | 0.00 | 0.00 |
| Surplus Reserves | 84,542,278.47 | 69,474,146.20 |
| General risk provision | 0.00 | 0.00 |
| Undistributed Profits | 732,073,918.41 | 606,596,048.30 |
| Total Owner's Equity Attributable to Parent Company | 2,150,140,208.26 | 1,997,889,042.28 |
| Minority Shareholder's Equity | 26,873,951.32 | 27,196,676.75 |
| Total Owner's Equity | <u>2,177,014,159.58</u> | <u>2,025,085,719.03</u> |
| | | |
| Total Liabilities and Owner's Equity | <u><u>5,806,505,196.92</u></u> | <u><u>4,158,921,708.34</u></u> |

Li Jianming
Legal representative

Tu Sunhong
Chief Accountant

Zhong Yan
*Supervisor of
Accounting Office*

2. Parent company balance sheet

Unit: Yuan

| Item | Closing balance | Opening balance |
|---|--------------------------------|--------------------------------|
| Current Assets: | | |
| Monetary Capital | 622,025,263.18 | 527,901,033.08 |
| Financial Assets Measured at Fair Value and Changes Recorded into Current Period Profit or Loss | 0.00 | 0.00 |
| Financial derivative | 0.00 | 0.00 |
| Notes Receivable | 189,770,832.46 | 53,490,221.61 |
| Accounts Receivable | 1,533,506,590.53 | 1,153,302,653.58 |
| Advance Payment | 69,364,970.62 | 171,306,056.67 |
| Interests Receivable | 0.00 | 7,034,544.96 |
| Dividends Receivable | 0.00 | 0.00 |
| Other Receivables | 521,036,198.89 | 190,385,427.07 |
| Inventories | 346,313,689.48 | 87,872,423.35 |
| Assets classified as held for sale | 0.00 | 0.00 |
| Non-current Assets Due within 1 Year | 0.00 | 0.00 |
| Other Current Assets | 3,659,478.48 | 3,996,170.71 |
| Total Current Assets | <u>3,285,677,023.64</u> | <u>2,195,288,531.03</u> |
| Non-current Assets: | | |
| Financial Assets Available for Sale | 14,000,000.00 | 14,000,000.00 |
| Investment Held to Maturity | 0.00 | 0.00 |
| Long-term Receivables | 0.00 | 0.00 |
| Long-term Equity Investment | 819,689,576.79 | 689,120,597.61 |
| Investment Properties | 0.00 | 0.00 |
| Fixed assets | 50,889,995.15 | 16,877,723.64 |
| Construction in Progress | 13,417,479.40 | 9,096,601.48 |
| Construction Materials | 0.00 | 0.00 |
| Disposal of Fixed Assets | 0.00 | 0.00 |
| Productive Biological Assets | 0.00 | 0.00 |
| Oil and Gas Assets | 0.00 | 0.00 |
| Intangible Assets | 457,291,319.82 | 465,773,351.22 |
| Development Expenditures | 2,159,965.92 | 6,633,888.16 |
| Goodwill | 0.00 | 0.00 |
| Long-term Deferred Expenses | 7,819,217.80 | 8,966,312.44 |
| Deferred Income Tax Assets | 32,748,803.83 | 25,277,301.38 |
| Other Non-current Assets | 0.00 | 0.00 |
| Total Non-current Assets | <u>1,398,016,358.71</u> | <u>1,235,745,775.93</u> |
| Total Assets | <u>4,683,693,382.35</u> | <u>3,431,034,306.96</u> |

| Item | Closing balance | Opening balance |
|--|-------------------------|-------------------------|
| Current Liabilities: | | |
| Short-term Borrowings | 346,812,594.11 | 0.00 |
| Financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period | 0.00 | 0.00 |
| Derivative financial liabilities | 0.00 | 0.00 |
| Notes Payable | 127,556,900.21 | 39,472,939.53 |
| Accounts Payable | 1,089,084,731.59 | 628,758,928.05 |
| Advance Receipt | 1,044,475,701.60 | 821,518,364.46 |
| Salary payable | 217,363.88 | 181,331.46 |
| Tax payable | 72,145,841.09 | 79,510,264.42 |
| Interests Payable | 0.00 | 0.00 |
| Dividends Payable | 0.00 | 2,097,812.00 |
| Other Payables | 108,636,499.75 | 75,325,656.25 |
| Liabilities classified as held for sale | 0.00 | 0.00 |
| Non-current Liabilities Due within 1 Year | 0.00 | 0.00 |
| Other Current Liabilities | 0.00 | 0.00 |
| Total Current Liabilities | <u>2,788,929,632.23</u> | <u>1,646,865,296.17</u> |

| Item | Closing balance | Opening balance |
|--|------------------------------------|------------------------------------|
| Non-current Liabilities: | | |
| Long-term Borrowings | 0.00 | 0.00 |
| Bonds Payable | 0.00 | 0.00 |
| Including: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Long-term Payables | 0.00 | 0.00 |
| Long-term employee remunerations payable | 0.00 | 0.00 |
| Special Payables | 0.00 | 0.00 |
| Estimated Liabilities | 0.00 | 0.00 |
| Deferred income | 22,129,566.95 | 12,967,053.98 |
| Deferred Income Tax Liabilities | 0.00 | 0.00 |
| Other Non-current Liabilities | 0.00 | 0.00 |
| Total Non-current Liabilities | <u>22,129,566.95</u> | <u>12,967,053.98</u> |
| Total Liabilities | <u><u>2,811,059,199.18</u></u> | <u><u>1,659,832,350.15</u></u> |
| Shareholder's Equity: | | |
| Share Capital | 415,597,227.00 | 274,411,744.00 |
| Other equity instruments | 0.00 | 0.00 |
| Including: Preference shares | 0.00 | 0.00 |
| Perpetual debts | 0.00 | 0.00 |
| Capital Reserves | 961,474,494.13 | 1,046,913,785.13 |
| Less: treasury share | 44,041,028.40 | 0.00 |
| Other comprehensive income | 0.00 | 0.00 |
| Special Reserves | 0.00 | 0.00 |
| Surplus Reserves | 84,542,278.47 | 69,474,146.20 |
| Undistributed Profits | 455,061,211.97 | 380,402,281.48 |
| Total Owner's Equity | <u>1,872,634,183.17</u> | <u>1,771,201,956.81</u> |
| Total Liabilities and Owner's Equity | <u><u>4,683,693,382.35</u></u> | <u><u>3,431,034,306.96</u></u> |

3. Consolidated Income Statement

Unit: Yuan

| Item | Current period amount | Prior period amount |
|---|--------------------------|------------------------|
| I. Total Operating Incomes | 4,829,487,170.53 | 4,255,622,147.28 |
| Including: operating incomes | 4,829,487,170.53 | 4,255,622,147.28 |
| Interest income | 0.00 | 0.00 |
| Earned premium | 0.00 | 0.00 |
| Fee and commission income | 0.00 | 0.00 |
| II. Total Operating Costs | 4,648,769,211.21 | 4,077,222,461.43 |
| Including: operating cost | 4,014,689,740.69 | 3,552,336,013.70 |
| Interest cost | 0.00 | 0.00 |
| Service charge and commission fee | 0.00 | 0.00 |
| Surrender value | 0.00 | 0.00 |
| Net payment for insurance claims | 0.00 | 0.00 |
| Net cost on preparation fund of insurance contract | 0.00 | 0.00 |
| Bond insurance expense | 0.00 | 0.00 |
| Amortized reinsurance expenditures | 0.00 | 0.00 |
| Income Tax and Surcharges | 28,234,232.92 | 24,526,369.65 |
| Marketing expenses | 63,897,607.24 | 67,818,308.79 |
| Management expenses | 492,456,586.91 | 405,131,552.43 |
| Financial expenses | 7,795,637.40 | -959,570.47 |
| Asset impairment losses | 41,695,406.05 | 28,369,787.33 |
| Add: Net Income from Changes in Fair Value (loss is presented by “-”) | 0.00 | 0.00 |
| Investment Income (loss is presented by “-”) | 1,478,746.25 | 2,096,792.19 |
| Including: Income from Investment in Associated Enterprises and Joint Ventures | 1,115,132.58 | 1,993,544.51 |
| Exchange income (loss is presented by “-”) | 0.00 | 0.00 |
| III. Operating Profits (loss is presented by “-”) | 182,196,705.57 | 180,496,478.04 |
| Add: Non-operating Income | 56,858,298.38 | 38,227,289.96 |
| Including: profit from disposal of non-current asset | 2,191,173.84 | 9,281.40 |
| Less: Non-operating Costs | 287,241.92 | 385,761.42 |
| Including: Losses on Disposal of Non-current asset | 53,732.17 | 93,796.81 |
| VI. Total Profits (total losses are presented by “-”) | 238,767,762.03 | 218,338,006.58 |
| Less: Income Tax Expenses | 37,590,225.16 | 20,147,474.31 |
| V. Net Profits (net losses are presented by “-”) | 201,177,536.87 | 198,190,532.27 |
| Total Owner’s Equity Attributable to Parent Company | 201,500,262.30 | 195,715,505.34 |
| Minority Shareholder’s Equity | -322,725.43 | 2,475,026.93 |

| Item | Current period amount | Prior period amount |
|---|--------------------------|------------------------|
| VI. Other Comprehensive Earning | 0.00 | 0.00 |
| After-tax net amount of other comprehensive income which belongs to the parent company owner | 0.00 | 0.00 |
| (I) Other comprehensive income cannot reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Remeasure the variation of net indebtedness or net asset of defined benefit plans | 0.00 | 0.00 |
| 2. Share in other comprehensive income that cannot be classified into profit and loss under equity method | 0.00 | 0.00 |
| (II) Other comprehensive income that will be reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Share in other comprehensive income that will be classified into profit and loss under equity method | 0.00 | 0.00 |
| 2. Changes in fair value through profit and loss of available-for-sale financial assets | 0.00 | 0.00 |
| 3. Held-to-maturity investment reclassified into available-for sale financial assets | 0.00 | 0.00 |
| 4. Effective part of cash-flow hedge profit and loss | 0.00 | 0.00 |
| 5. Balance arising from the translation of foreign currency financial statements | 0.00 | 0.00 |
| 6. Other | 0.00 | 0.00 |
| Total comprehensive income attributed to parent company owners | 0.00 | 0.00 |
| VII. Total Comprehensive Earnings | 201,177,536.87 | 198,190,532.27 |
| Total Owner's Comprehensive Earnings | | |
| Attributable to Parent Company | 201,500,262.30 | 195,715,505.34 |
| Minority Shareholder's Comprehensive Earnings | -322,725.43 | 2,475,026.93 |
| VIII. Earnings per Share: | | |
| Basic Earnings per Share | 0.4895 | 0.4755 |
| Diluted Earnings per Share | 0.4856 | 0.4755 |

If business merger under the same control occurs in current period, the realized net profit of the merged party prior to the merging was: yuan; the merged party realized net profit of prior period was: yuan.

Li Jianming
Legal representative

Tu Sunhong
Chief Accountant

Zhong Yan
*Supervisor of
Accounting Office*

4. Parent Company Income Statement

Unit: Yuan

| Item | Current period amount | Prior period amount |
|---|--------------------------|------------------------|
| I. Operating incomes | 3,645,424,043.59 | 3,475,787,601.44 |
| Less: operating cost | 3,075,543,837.27 | 3,011,819,325.10 |
| Income Tax and Surcharges | 24,980,502.77 | 21,277,784.89 |
| Marketing expenses | 34,931,721.29 | 37,805,943.72 |
| Management expenses | 326,971,498.39 | 260,968,411.44 |
| Financial expenses | 5,911,527.03 | -1,720,077.22 |
| Asset impairment losses | 33,226,416.74 | 28,751,788.90 |
| Add: Net Income from Changes in Fair Value (loss is presented by “-”) | 0.00 | 0.00 |
| Investment Income (loss is presented by “-”) | 1,249,746.25 | 2,096,792.19 |
| Including: Income from Investment in Associated Enterprises and Joint Ventures | 1,115,132.58 | 1,993,544.51 |
| II. Operating Profits (loss is presented by “-”) | 145,108,286.35 | 118,981,216.80 |
| Add: Non-operating Income | 32,520,519.13 | 19,073,184.91 |
| Including: profit from disposal of non-current asset | 2,191,173.84 | 0.00 |
| Less: Non-operating Costs | 275,712.11 | 339,096.56 |
| Including: Losses on Disposal of Non-current asset | 45,712.11 | 49,096.56 |
| III. Total Profits (total losses are presented by “-”) | 177,353,093.37 | 137,715,305.15 |
| Less: Income Tax Expenses | 26,671,770.69 | 11,843,206.12 |
| VI. Net Profits (net losses are presented by “-”) | 150,681,322.68 | 125,872,099.03 |

| Item | Current period amount | Prior period amount |
|---|----------------------------------|--------------------------------|
| V. Other Comprehensive Earning | 0.00 | 0.00 |
| (I) Other comprehensive income cannot reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Remeasure the variation of net indebtedness or net asset of defined benefit plans | 0.00 | 0.00 |
| 2. Share in other comprehensive income that cannot be classified into profit and loss under equity method | 0.00 | 0.00 |
| (II) Other comprehensive income that will be reclassified into the profit and loss | 0.00 | 0.00 |
| 1. Share in other comprehensive income that will be classified into profit and loss under equity method | 0.00 | 0.00 |
| 2. Changes in fair value through profit and loss of available-for-sale financial assets | 0.00 | 0.00 |
| 3. Held-to-maturity investment reclassified into available-for sale financial assets | 0.00 | 0.00 |
| 4. Effective part of cash-flow hedge profit and loss | 0.00 | 0.00 |
| 5. Balance arising from the translation of foreign currency financial statements | 0.00 | 0.00 |
| 6. Other | 0.00 | 0.00 |
| VI. Total Comprehensive Earnings | 150,681,322.68 | 125,872,099.03 |
| VII. Earnings per Share: | | |
| (I) Basic Earnings per Share | | |
| (II) Diluted Earnings per Share | | |

5. Consolidated Cash Flow Statement

Unit: Yuan

| Item | Current period amount | Prior period amount |
|---|--------------------------|------------------------|
| I. Cash Flows from Operating Activities: | | |
| Cash received from Sale of Goods or Rendering of Services | 4,891,256,931.24 | 4,486,058,365.81 |
| Net increase from clients' deposit and deposit from other banks | 0.00 | 0.00 |
| Net increase in borrowings from central bank | 0.00 | 0.00 |
| Net increase in borrowings from other financial institutions | 0.00 | 0.00 |
| Cash of premium collected from the original insurance contract | 0.00 | 0.00 |
| Net cash of reinsurance business collected | 0.00 | 0.00 |
| Net increase from deposit of insured and investment | 0.00 | 0.00 |
| Handling is measured by fair value and its variation is included in financial asset net increase amount of current profits and losses | 0.00 | 0.00 |
| Cash received from collecting interest, handling charges and commissions | 0.00 | 0.00 |
| Net increase in borrowings from other banks | 0.00 | 0.00 |
| Net increase in buy-back business | 0.00 | 0.00 |
| Refund of Taxes Received | 16,394,297.27 | 12,194,296.91 |
| Other Cash Received relating to Operating Activities | 662,855,574.60 | 347,660,611.77 |
| Sub-total of Cash Inflows from Operating Activities | 5,570,506,803.11 | 4,845,913,274.49 |
| Cash Paid for Goods and Services | 4,066,807,454.25 | 3,851,209,183.57 |
| Net increase in clients' loan and advance in cash | 0.00 | 0.00 |
| Net increase from deposits in the central bank and other banks | 0.00 | 0.00 |
| Cash paid for compensation of the original insurance contract | 0.00 | 0.00 |
| Cash paid for interest, handling charges and commissions | 0.00 | 0.00 |
| Cash paid for policy dividend | 0.00 | 0.00 |
| Cash Paid to and on Behalf of Employees | 498,342,242.40 | 406,510,770.80 |
| Payments of All Types of Taxes | 163,647,992.44 | 134,554,251.68 |
| Other Cash Paid relating to Operating Activities | 593,899,608.15 | 470,545,551.62 |
| Sub-total of Cash Outflows from Operating Activities | 5,322,697,297.24 | 4,862,819,757.67 |
| Net cash flows from operating activities | 247,809,505.87 | -16,906,483.18 |

| Item | Current period amount | Prior period amount |
|---|--------------------------|------------------------|
| II. Cash Flows from Investing Activities: | | |
| Cash received from recovery of investments | 1,000,000.00 | 0.00 |
| Cash received from returns on investments | 363,613.67 | 103,247.68 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 1,409,067.59 | 218,555.90 |
| Net cash received from disposal of subsidiaries and other business entities | 0.00 | 0.00 |
| Other cash received relating to investing activities | 0.00 | 0.00 |
| Sub-total of cash inflows from Operating Activities | 2,772,681.26 | 321,803.58 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 390,921,754.32 | 131,172,683.15 |
| Cash paid to acquire investments | 63,598,869.63 | 8,791,756.87 |
| Net increase from hypothecated loan | 0.00 | 0.00 |
| Cash paid to acquire subsidiaries and other business entities | 0.00 | 0.00 |
| Other cash payments relating to investing activities | 0.00 | 0.00 |
| Sub-total of cash outflows from Investing Activities | 454,520,623.95 | 139,964,440.02 |
| Net cash flows from investing activities | -451,747,942.69 | -139,642,636.44 |
| III. Cash Flows from Financing Activities: | | |
| Cash received from capital contribution | 44,041,028.40 | 2,000,000.00 |
| Including: Cash Received by Subsidiaries from Capital Contribution of Minority Shareholders | 0.00 | 2,000,000.00 |
| Cash received from borrowings | 671,812,594.11 | 353,000,000.00 |
| Cash received from bonds issuing | 0.00 | 0.00 |
| Other cash received relating to financing activities | 31,570,000.00 | 0.00 |
| Sub-total of Cash Inflows from Financing Activities | 747,423,622.51 | 355,000,000.00 |
| Cash repayments of amounts borrowed | 305,000,000.00 | 343,000,000.00 |
| Cash payments for interest expenses and distribution of dividends or profits | 79,191,421.48 | 58,904,022.44 |
| Including: dividend profits paid by subsidiary to minority shareholders | 0.00 | 0.00 |
| Other cash payments relating to financing activities | 241,472.19 | 0.00 |
| Sub-total of cash outflows from Operating Activities | 384,432,893.67 | 401,904,022.44 |
| Net cash flows from financing activities | 362,990,728.84 | -46,904,022.44 |

| Item | Current period amount | Prior period amount |
|--|----------------------------------|--------------------------------|
| IV. Effect of Foreign Exchange Rate Changes on Cash | 0.00 | 0.00 |
| V. Net Increase in Cash and Cash Equivalents | 159,052,292.02 | -203,453,142.06 |
| Add: Opening Balance of Cash and Cash Equivalents of the Period | 850,846,775.18 | 1,054,299,917.24 |
| VI. Closing Balance of Cash and Cash Equivalents of the Period | 1,009,899,067.20 | 850,846,775.18 |

6. Parent company cash flow statement

Unit: Yuan

| Item | Current period amount | Prior period amount |
|---|--------------------------|------------------------|
| I. Cash Flows from Operating Activities: | | |
| Cash received from Sale of Goods or Rendering of Services | 3,790,761,369.44 | 3,738,746,493.81 |
| Refund of Taxes Received | 5,170,564.25 | 263,589.85 |
| Other Cash Received relating to Operating Activities | 1,377,534,820.23 | 668,384,568.72 |
| Sub-total of Cash Inflows from Operating Activities | 5,173,466,753.92 | 4,407,394,652.38 |
| Cash Paid for Goods and Services | 3,085,697,239.25 | 3,355,501,926.28 |
| Cash Paid to and on Behalf of Employees | 309,438,330.50 | 245,415,290.72 |
| Payments of All Types of Taxes | 122,933,174.00 | 96,315,930.29 |
| Other Cash Paid relating to Operating Activities | 1,597,749,361.30 | 787,875,715.25 |
| Sub-total of Cash Outflows from Operating Activities | 5,115,818,105.05 | 4,485,108,862.54 |
| Net cash flows from operating activities | 57,648,648.87 | -77,714,210.16 |
| II. Cash Flows from Investing Activities: | | |
| Cash received from recovery of investments | 0.00 | 0.00 |
| Cash received from returns on investments | 134,613.67 | 103,247.68 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 1,406,183.49 | 102,555.90 |
| Net cash received from disposal of subsidiaries and other business entities | 0.00 | 0.00 |
| Other cash received relating to investing activities | 0.00 | 0.00 |
| Sub-total of cash inflows from Operating Activities | 1,540,797.16 | 205,803.58 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | 29,148,680.76 | 54,869,207.86 |
| Cash paid to acquire investments | 133,698,869.63 | 8,791,756.87 |
| Cash paid to acquire subsidiaries and other business entities | 0.00 | 0.00 |
| Other cash payments relating to investing activities | 0.00 | 0.00 |
| Sub-total of cash outflows from Investing Activities | 162,847,550.39 | 63,660,964.73 |
| Net cash flows from investing activities | -161,306,753.23 | -63,455,161.15 |

| Item | Current period amount | Prior period amount |
|--|----------------------------------|--------------------------------|
| III. Cash Flows from Financing Activities: | | |
| Cash received from capital contribution | 44,041,028.40 | 0.00 |
| Cash received from borrowings | 616,812,594.11 | 318,000,000.00 |
| Cash received from bonds issuing | 0.00 | 0.00 |
| Other cash received relating to financing activities | 0.00 | 0.00 |
| Sub-total of Cash Inflows from Financing Activities | 660,853,622.51 | 318,000,000.00 |
| Cash repayments of amounts borrowed | 270,000,000.00 | 318,000,000.00 |
| Cash payments for interest expenses and distribution of dividends or profits | 76,258,647.13 | 57,070,247.90 |
| Other cash payments relating to financing activities | 241,472.19 | 0.00 |
| Sub-total of cash outflows from Operating Activities | 346,500,119.32 | 375,070,247.90 |
| Net cash flows from financing activities | 314,353,503.19 | -57,070,247.90 |
| IV. Effect of Foreign Exchange Rate Changes on Cash | 0.00 | 0.00 |
| V. Net Increase in Cash and Cash Equivalents | 210,695,398.83 | -198,239,619.21 |
| Add: Opening Balance of Cash and Cash Equivalents of the Period | 389,117,145.35 | 587,356,764.56 |
| VI. Closing Balance of Cash and Cash Equivalents of the Period | 599,812,544.18 | 389,117,145.35 |

7. Consolidated Statement of Changes in Owner's Equity

*Amount of Current Year**Unit: Yuan*

| Item | Amount of Current Year | | | | | | | | | | | Equity of minority shareholders | Total of owner's equity | |
|--|--------------------------|-----------------|-----------------|-------|--|----------------------|----------------------|---------------|--------------------------|----------------------|-----------------|---------------------------------|-------------------------|------------------|
| | Other equity instruments | | | | Owner's equity belongs to parent's company | | | | General risk preparation | Undistributed profit | Surplus reserve | | | |
| | Stock | Preferred stock | Perpetual debts | Other | Capital Reserves | Less: treasury share | Comprehensive Income | Other reserve | | | | | | |
| I. Closing Balance of Previous Year | 274,411,744.00 | | | | 1,047,407,103.78 | | | | | 69,474,146.20 | | 606,596,048.30 | 27,196,676.75 | 2,025,085,719.03 |
| Add: Changes in Accounting Policies | | | | | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | | | | | |
| Business Combination under Common Control | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | |
| II. Opening Balance of Current Year | 274,411,744.00 | | | | 1,047,407,103.78 | | | | | 69,474,146.20 | | 606,596,048.30 | 27,196,676.75 | 2,025,085,719.03 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "-") | 141,185,483.00 | | | | -85,439,291.00 | 44,041,028.40 | | | | 15,068,132.27 | | 125,477,870.11 | -322,725.43 | 151,928,440.55 |
| (I) Total consolidated income | | | | | | | | | | | | 201,500,262.30 | -322,725.43 | 201,177,536.87 |
| (II) Capital contributed by owners and capital decreases | 2,653,074.00 | | | | 53,093,118.00 | 44,041,028.40 | | | | | | | | 11,705,163.60 |
| 1. Shareholder invested common stock | 2,653,074.00 | | | | 41,387,954.40 | 44,041,028.40 | | | | | | | | |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | 11,151,317.00 | | | | | | | | | 11,151,317.00 |
| 4. Others | | | | | 553,846.60 | | | | | | | | | 553,846.60 |
| (III) Distribution of Profits | | | | | | | | | | 15,068,132.27 | | -76,022,392.19 | | -60,954,259.92 |
| 1. Appropriations to Surplus Reserves | | | | | | | | | | 15,068,132.27 | | -15,068,132.27 | | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | | | | | |
| 3. Distribution to Owners | | | | | | | | | | | | | -60,954,259.92 | -60,954,259.92 |
| 4. Others | | | | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | 138,532,409.00 | | | | -138,532,409.00 | | | | | | | | | |
| 1. Capitalized Capital Reserves | 138,532,409.00 | | | | -138,532,409.00 | | | | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | | | | |
| IV. Closing Balance of Current Period | 415,597,227.00 | | | | 961,967,812.78 | 44,041,028.40 | | | | 84,542,278.47 | | 732,073,918.41 | 26,873,951.32 | 2,177,014,159.58 |

Amount of last Year

Unit: yuan

| Item | Amount of last Year | | | | | | | | | | | | Equity of minority shareholders | Total of owner's equity |
|--|--------------------------|-----------------|-----------------|-------|--|----------------------|----------------------|-----------------|-----------------|--------------------------|----------------------|----------------|---------------------------------|-------------------------|
| | Other equity instruments | | | | Owner's equity belongs to parent's company | | | | | General risk preparation | Undistributed profit | | | |
| | Stock | Preferred stock | Perpetual debts | Other | Capital Reserves | Less: treasury share | Comprehensive Income | Special reserve | Surplus reserve | | | | | |
| I. Closing Balance of Previous Year | 274,411,744.00 | | | | 1,047,407,103.78 | | | | 56,886,936.30 | | 478,350,101.66 | 24,721,649.82 | 1,881,777,535.56 | |
| Add: Changes in Accounting Policies | | | | | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | | | | | |
| Business Combination under Common Control | | | | | | | | | | | | | | |
| Other | | | | | | | | | | | | | | |
| II. Opening Balance of Current Year | 2,7441,1744.00 | | | | 1,04740,7103.78 | | | | 56,886936.30 | | 47,8350,101.66 | 24,721,649.82 | 1,881,777,535.56 | |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "-") | | | | | | | | | 12,587,209.90 | | 128,245,946.64 | 2,475,026.93 | 143,308,183.47 | |
| (I) Total consolidated income | | | | | | | | | | | 195,715,505.34 | 2,475,026.93 | 198,190,532.27 | |
| (II) Capital contributed by owners and capital decreases | | | | | | | | | | | | | | |
| 1. Shareholder invested common stock | | | | | | | | | | | | | | |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | |
| (III) Distribution of Profits | | | | | | | | | 12,587,209.90 | | -67,469,558.70 | | -54,882,348.80 | |
| 1. Appropriations to Surplus Reserves | | | | | | | | | 12,587,209.90 | | -12,587,209.90 | | | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | | | | | |
| 3. Distribution to Owners | | | | | | | | | | | -54,882,348.80 | | -54,882,348.80 | |
| 4. Others | | | | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | | | | | | | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | | | | |
| IV. Closing Balance of Current Period | 2,7441,1744.00 | | | | 1,04740,7103.78 | | | | 69,474,146.20 | | 606,596,048.30 | 606,596,048.30 | 2,025,085,719.03 | |

8. Parent company owner's equity variation statement

*Amount of Current Year**Unit: yuan*

| Item | Other equity instruments | | | | Amount of Current Year | | | | | Undistributed profit | Total of owner's equity |
|--|--------------------------|-----------------|-----------------|-------|------------------------|----------------------|----------------------|-----------------|-----------------|----------------------|-------------------------|
| | Stock | Preferred stock | Perpetual debts | Other | Capital Reserves | Less: treasury share | Comprehensive Income | Special reserve | Surplus reserve | | |
| I. Closing Balance of Previous Year | 274,411,744.0 | | | | 1,046,913,785.13 | | | | 69,474,146.20 | 380,402,281.48 | 1,771,201,956.81 |
| Add: Changes in Accounting Policies | | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | | |
| Other | | | | | | | | | | | |
| II. Opening Balance of Current Year | 274,411,744.00 | | | | 1,046,913,785.13 | | | | 69,474,146.20 | 380,402,281.48 | 1,771,201,956.81 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "-") | 141,185,483.00 | | | | -85,439,291.00 | 44,041,028.40 | | | 15,068,132.27 | 74,658,930.49 | 101,432,226.36 |
| (I) Total consolidated income | | | | | | | | | | 150,681,322.68 | 150,681,322.68 |
| (II) Capital contributed by owners and capital decreases | 2,653,074.00 | | | | 53,093,118.00 | 44,041,028.40 | | | | | 11,705,163.60 |
| 1. Shareholder invested common stock | 2,653,074.00 | | | | 41,387,954.40 | 44,041,028.40 | | | | | |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | 11,151,317.00 | | | | | | |
| 4. Others | | | | | 553,846.60 | | | | | | 553,846.60 |
| (III) Distribution of Profits | | | | | | | | | 15,068,132.27 | -76,022,392.19 | -60,954,259.92 |
| 1. Appropriations to Surplus Reserves | | | | | | | | | 15,068,132.27 | -15,068,132.27 | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | | -60,954,259.92 |
| 3. Other | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | 138,532,409.00 | | | | -138,532,409.00 | | | | | | |
| 1. Capitalized Capital Reserves | 138,532,409.00 | | | | -138,532,409.00 | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | | |
| 2. Use special reserves | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | |
| IV. Closing Balance of Current Period | 415,597,227.00 | | | | 961,474,494.13 | 44,041,028.40 | | | 84,542,278.47 | 455,061,211.97 | 1,872,634,183.17 |

*Amount of Previous Year**Unit: Yuan*

| Item | Other equity instruments | | | | Amount of last Year | | | Surplus reserve | Undistributed profit | Total of owner's equity | |
|--|--------------------------|-----------------|-----------------|-------|---------------------|----------------------|----------------------------|-----------------|----------------------|-------------------------|------------------|
| | Stock | Preferred stock | Perpetual debts | Other | Capital Reserves | Less: treasury share | Other Comprehensive Income | | | | Special reserve |
| I. Closing Balance of Previous Year | 274,411,744.00 | | | | 1,046,913,785.13 | | | | 56,886,936.30 | 1,700,212,206.58 | 1,700,212,206.58 |
| Add: Changes in Accounting Policies | | | | | | | | | | | |
| Corrections of Prior Period Errors | | | | | | | | | | | |
| Other | | | | | | | | | | | |
| II. Opening Balance of Current Year | 274,411,744.00 | | | | 1,046,913,785.13 | | | | 56,886,936.30 | 1,700,212,206.58 | 1,700,212,206.58 |
| III. Amount of Increase/Decrease of Current Year (decrease is presented by "-") | | | | | | | | | 12,587,209.90 | 70,989,750.23 | 70,989,750.23 |
| (I) Total consolidated income | | | | | | | | | | 125,872,099.03 | 125,872,099.03 |
| (II) Capital contributed by owners and capital decreases | | | | | | | | | | | |
| 1. Shareholder invested common stock | | | | | | | | | | | |
| 2. Other equity instrument holder invested capital | | | | | | | | | | | |
| 3. Amount of Share Payment Recognized in Owner's Equity | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | |
| (III) Distribution of Profits | | | | | | | | | 12,587,209.90 | -67,469,558.70 | -54,882,348.80 |
| 1. Appropriations to Surplus Reserves | | | | | | | | | 12,587,209.90 | -12,587,209.90 | |
| 2. Appropriations to General Risk Provisions (filled and reported by financial enterprise) | | | | | | | | | | -54,882,348.80 | -54,882,348.80 |
| 3. Other | | | | | | | | | | | |
| (IV) Internal Carry-forward of Owner's Equity | | | | | | | | | | | |
| 1. Capitalized Capital Reserves | | | | | | | | | | | |
| 2. Capitalized Surplus Reserves | | | | | | | | | | | |
| 3. Surplus Reserves for Making up Losses | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | |
| 1. Appropriations to special reserves | | | | | | | | | | | |
| 2. use special reserves | | | | | | | | | | | |
| (VI) Other | | | | | | | | | | | |
| IV. Closing Balance of Current Period | 274,411,744.00 | | | | 1,046,913,785.13 | | | | 69,474,146.20 | 380,402,281.48 | 1,771,201,956.81 |

III. BASIC INFORMATION ABOUT THE COMPANY

Taiji Computer Corporation Limited (hereinafter referred to as “**the Company**” or “**Company**”) was jointly incorporated by investment from 15th Institute, CETC (hereinafter referred to as “**15th Institute**”, the major initiator), along with Beijing Jinghua Dechuang Investment Co., Ltd. and Beijing Longkai Innovation Technology Development Co., Ltd. and 7 natural persons, in accordance with State Economic and Trade Commission JMQG [2002]712 Approval on the Establishment of Taiji Computer Corporation Limited and the XYH [2001]011 Approval on the Reform and Reconstruction of Taiji Computer Corporation Limited issued by the Economic System Reform and Economic Operation Division under Ministry of Information Industry, the Ministry of Finance CQ [2002]361 Approval by the Ministry of Finance on the Management of (fund raising) State-owned Stock Right of Taiji Computer Corporation Limited, with registered address and head office located in Beijing City, the People’s Republic of China.

The Company’s parent company is the 15th Institute and final parent company is CETE. Upon establishment, the total share capital is 7,378.92 Yuan, with 1 Yuan par value per share. On March 5, 2010, the Company issued 25,000,000 common shares (A share) to domestic investors, and listed in Shenzhen Stock Exchange on March 12, 2010, total share capital increased to 98,789,200 Yuan after issuing. In 2011 and 2012, the capital increased by 98,789,200 and 39,515,700 Yuan through transferring capital public reserves into share capital, resulting in the total share capital of 237,094,100 Yuan; in 2013, the Company issued shares and paid cash to purchase assets and raised supporting funds, a total of shares of 37,317,700 Yuan were issued, with the total share capital of 274,411,800 Yuan. In February 2015, the Company issued restricted stock of 265,300,000 shares, and its capital stock was increased to 277,064,800 yuan. In June 2015, the capital reserve converted into capital stock of 138,532,400 yuan; after the conversion, the total stock issue was increased to 415,597,200 yuan.

The Company and its subsidiaries (collectively “**the Group**”) have engaged in industry solution and service, IT consulting and IT product value-added service and other integrated IT service business. For the main subsidiaries incorporated into the consolidation scope of the year, refer to Note 7. This year’s subsidiaries newly incorporated into the consolidation scope mainly include Jilin Taiji Computer Corporation Limited and Taiji Intelligent Traveling Information Technology Co., Ltd.; refer to Note 6 for details. This financial statement is approved and announced by the company’s board of directors on March 21, 2016.

IV. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

1. Preparation basis

The financial statements are prepared on the basis of Accounting Standard for Business Enterprise — Basic Standards issued on 15 February 2006 and accounting standards, guidelines and explanation of the accounting standards, and other related stipulations (hereafter totally called — Enterprise Accounting Standards) and CSRC’s Preparation Rules for Information Disclosures by Companies Offering Securities to the Public No. 15 — General Rules on Financial Report.

The financial statements were prepared based on going concern.

2. Sustainable operation

The Company capability to operate sustainably 12 months after the report period is comprehensively evaluated before the preparation of financial statements are prepared. Using all available information, including the history of recent profitable operation, with financial evidence such as bank financing as supporting information, it can be reasonably expected through evaluation that the Company has sufficient resources to ensure the sustainable operation within 12 months after the end of the report period, so the financial statements are prepared based on sustainable operation.

V. IMPORTANT ACCOUNTING POLICY AND ACCOUNTING ESTIMATE

Specific accounting policy and accounting estimates:

The Group determines specific accounting policies and accounting estimation according to production and operation characteristics, which are mainly reflected in provision method (Note III Article 11) for receivables bad debt reserve, inventory's valuation methods (Note III Article 12), judgment standards of impairment to available-for-sale equity instrument (Note III Article 10), fixed asset depreciation and amortization of intangible assets (Note III Articles 15 and 18), judgment standard of development expenditure capitalization (Note III Article 18), income's confirmation time (Note III Article 24), etc. For the Group's key judgment standard applied in when determining important accounting policies, refer to Note III Article 30.

1. Declaration on compliance with the Accounting Standards for Enterprises

The Company's preparation of financial statements for the year 2015 meets the requirements of the Accounting Standards for Enterprises, gives a true and fair view on its financial condition as of December 31, 2015, results of operations, cash flows and other information in 2015.

2. Accounting period

The accounting periods are divided into annual and interim, the latter refers to a report period shorter than a whole accounting year. The accounting year starts on 1 January and ends on 31 December of Gregorian calendar.

3. Business cycle

The business cycle of the Company is 12 months.

4. Reporting currency

RMB is the currency used in the main economic environment where the domestic entities of the Company are located, and RMB is adopted as the recording currency of the Company. RMB is used to prepare the financial statements of the Company.

5. Accounting treatment of business combination under common control and not under common control

Business combination refers to a transaction or matter which combines two or more than two individual entities into one reporting entity. Business combination is divided into combination under the common control and combination not under common control.

(1) Business combination under common control

If the combining company uses cash payment, transfer of non-cash assets or assumption of debts as combination consideration, such combination consideration paid by the combining company and acquired owners' equities of the combined company should be calculated on book value. The difference between the book value of the owners' equities of the combined company acquired by the combining company in the consolidated financial statements of the controlling company and the book value of the paid consideration should be adjusted on capital reserve (capital stock premium). If the reserve (capital stock premium) is not sufficient to offset the difference, adjust the retained earnings. If the combining company uses equity securities as consideration, such consideration should be recorded as initial cost for long-term equity investment based on the book value of owners' equities of the combined company in the consolidated financial statements of the controlling company.

The total face value of issued securities should be recorded as capital stock. The difference between the initial cost for long-term equity investment and total face value of issued securities should be offset by adjusting capital reserve. If the capital reserve is insufficient to offset, adjust retained earnings. Direct expenses related to the combination of company should be recorded into current profit and loss. The transaction expenses related to the issuance of equity securities or debt security for the combination of company should be recorded into the initial value of such equity securities or debt security.

In the event that company combination under common control is realized through multiple transactions, if such transactions belong to a "package deal", the Company will treat these transactions as a transaction to acquire the control of a company according to the above common control principle. If these transactions do not belong to a "package deal", the Company will use the Company's equity investment before acquiring the control of the combined company, to offset the confirmed loss and profit, other comprehensive income and change in net assets from the date of acquiring control or the combining company and combined company under common control, whichever is later, to the date of combination; the difference should be recorded into retained earnings or current profit and loss in the report period.

(2) Business combination not under common control

The combination costs of the acquirer and the identifiable net assets obtained by the acquirer in a business combination shall be recorded at the fair values. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains forms the acquiree as business reputation. The balance that the combination costs are less than the fair value of the identifiable net assets the acquirer obtains from the acquiree in a business combination, shall be recorded into the gains and

losses at the current period. The direct correlative charges caused by the combination shall be recorded into the gains and losses. The transaction expenses for the issuance of equity securities or bonds for the business combination shall be recorded into the amount of initial accounting of the equity securities or liabilities.

In case that business combination not under common control are achieved through several transactions, if several transactions are “package deal”, the Company will treat them as one transaction for which the Company achieves the right of control of subsidiary; if several transactions are not “package deal”, the equity of the combined entity held by the combining entity before the acquisition date shall be re-accounted according to the fair value of the equity at the acquisition date, the differences between the fair value and its book value shall be included in the current income from investment; for the equity of the combined entity which is held by the combining entity before the acquisition date, if it results in the change in other owner’s equity except other comprehensive income under equity method and net profit and loss, other comprehensive income and distribution of profits (referred to “change in other owner’s equity” below), and other relevant comprehensive income, change in other owner’s equity shall be transferred into the current profit and loss at the acquisition date, except other comprehensive income caused by the invested entity re-calculating the net liabilities or assets of defined benefit plan.

(3) Judgment of “package deal”

For business combination achieved through several transactions, the Company judges whether the step transactions are “package deal” according to clauses of agreements of the step transactions, equity proportion acquired at each transaction, object of achievement, form of achievement, time of achievement and the consideration. If the clauses, conditions and economic influence of each transaction meet one or more of the following conditions, the Company usually treats the step transactions as “package deal”: ① The transactions are concluded at the same time or considering the influence of each other; ② The transactions can achieve one complete business result in a whole; ③ The occurrence of one transaction depends on that of another transaction; ④ One transaction is not economic individually but it is economic considering other transactions.

6. Preparation of consolidated statements

The consolidated statements consist of those of the Company and the consolidated subsidiaries. Subsidiary is the subject controlled by the Company.

Subsidiary is consolidated from the date on which effective control over the subsidiary is exercised by the Company; subsidiary is no longer consolidated from the date when that control ceases. The subsidiary acquired by the company under common control is consolidated from the date on which effective control over the subsidiary is exercised by the Company and in the consolidated income statement, its net interests realized on the consolidation date are listed as individual entry.

When there exists discrepancy between accounting policies adopted by subsidiaries and the Company, statements of subsidiaries are adjusted according to the Company's policies upon consolidation. When subsidiary acquired through merger of enterprise not under the same controller, its financial statements are adjusted on the basis of fair value of the recognizable net assets as of purchase day.

All significant accounts' balance, transaction and unrealized profit within the Company are off- set in preparation of the consolidated statements. But impairment loss of relevant assets showed by internal transaction shall be recognized in full. Owners' equity of subsidiaries and that part of the current net profit and loss not attributable to the Company is shown under shareholders' equity and net profit in consolidated financial and current net profit and loss statements as minority interest and minority gains and losses. Unrealized profit and loss from internal transaction for which the Company sales the assets to the subsidiary shall write off in full retained profits attributable to the shareholders of the parent; unrealized profit and loss from internal transaction for which the subsidiary sales the assets to the Company shall write off retained profits attributable to the shareholders of the parent and minority interest income based on the distribution proportion. Unrealized profit and loss from internal transaction for which the assets are sold between subsidiaries, shall write off the net profit attributable to the shareholders of the parent and minority interest income based on the distribution proportion.

If there is difference between the judgment of a transaction based on the Company as the accounting entity and that based on the subsidiary as the accounting entity, the transaction shall be adjusted from the point of view of the Company.

7. Classification of joint venture and accounting treatment of joint operation

Based on the rights and obligation in joint venture, considering the structure, legal form, contract terms and other factors, the Company divides joint venture into joint operation and joint venture. If the Company is a party with the right of common control of joint venture, or the Company is not a party with the right of common control of joint venture but enjoys the relevant assets of the venture and assumes the relevant liabilities, the assets, liabilities, income and expenses related to the share of interest of the Company in the joint venture shall be accounted. For the assets purchased by the Company from the joint venture, investment in the joint venture, or assets sold to the joint venture (except the assets which are a part of transaction), the profit and loss attributable to the joint venture generated from the transaction shall be accounted before such assets are sold to a third party. For impairment loss of the relevant asset purchased from the joint venture, the Company accounts part of loss based on the distribution proportion, for impairment loss of the relevant asset invested or sold to the joint venture, the Company accounts the loss in full.

8. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits readily available for the payment of and the Group's investment of short-term (generally within 3 months from the purchase date), highly liquid and readily convertible to known amounts of cash, with an insignificant risk of changes in value.

9. Foreign currency and accounting method for foreign currency

(1) Accounting method for foreign currency

Concerning the foreign-currency transactions that occurred, the foreign currency shall be converted into the recording currency according to the middle price of the market exchange rate disclosed by the People's Bank of China on the date of the transaction. Among the said transactions that occurred, those involving foreign exchanges shall be converted according to the exchange rates adopted in the actual transactions.

(2) Conversion method of foreign-currency monetary accounts and foreign-currency non-monetary accounts

On the balance sheet date, the foreign-currency monetary accounts shall be converted into the recoding currency according to the spot exchange rates on the Balance Sheet Date. The resulting balance of exchange shall be recognized as gains/losses from foreign exchange, except that: ① the exchange gain/loss caused by the foreign-currency borrowings related to purchasing fixed assets shall be handled according to the principle of capitalization of borrowing costs; ② the exchange gain/loss caused by the change in the book balance of foreign-currency monetary accounts available for sale except amortized cost shall be recorded into current profit and loss.

On the balance sheet date, the foreign-currency non-monetary accounts recorded by historical cost shall be converted according to the spot exchange on the date of the transaction. The foreign-currency non-monetary accounts recorded by fair value shall be converted according to the spot exchange on the date when the fair value is recognized, and the difference between the recording-currency amount and the original book recording-currency amount shall be recognized as the gain/loss from fair value changes (including change in exchange rate) and recorded into the gain/loss of the current period.

10. Financial instruments

(1) Recognition method for fair value of financial assets and financial liabilities

The quotation in the active market shall be used to recognize the fair value of the financial assets or financial liabilities existing in active market. If the financial instruments do not exist in the active market, the fair value shall be recognized by value appraisal techniques. During evaluation, the Company uses valuation technique supported by applicable, sufficient available data and other information in current circumstances, selects the input values consistent with the characteristics of asset or liability considered in the transaction of relevant asset and liability by market participant, and gives priority in use of observable input values as far as possible. Unobservable input values can be used if the relevant observable input values are unavailable or infeasible.

(2) Classification, recognition and accounting of financial assets

Financial assets purchased or sold in common manner shall be recognized or derecognized at the transaction date, interest generated from the transaction of the relevant asset and liability shall be accrued and recognized after the ownership is transferred on the settlement date. Financial assets are initially recognized and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, held-to-maturity investment, loans and receivables as well as held-for-sale financial assets. The initially recognized financial assets are recorded at the fair value. For the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss, the relevant transaction expenses are included in the current profit and loss; and for other financial assets, the relevant transaction expenses are included in the initial recognition amount.

① *Financial assets which are recorded at their fair value and the variation of which is recorded into the profits and losses of the current period*

Include tradable financial assets and classified as the financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss. The financial assets which are recorded at their fair value and for which the change in fair value is included in the current profit and loss all are tradable financial assets.

Tradable financial assets refer to the financial assets which comply with one of the following conditions: A. The financial assets are mainly purchased for being sold in the near future; B. The financial assets are part of identifiable financial instrument portfolio for which centralized management is carried out, and objective evidence shows that the Company will manage the portfolio for making a profit in the near future; C. The financial assets are derivative instruments, except derivative instruments designated as effective hedging instruments, the financial guarantee contract, the derivative instruments which there is no quoted price in the active market and the fair value of which cannot be reliably calculated, investment linked and which are settled through the delivery of equity instrument.

Financial assets which are measured with fair value and whose variations are included into current profits and losses adopt fair value to carry out subsequent measurement. Fair value variation formed profits or losses and dividends and interests related to such financial assets are included into current profits and losses.

② *The investments which will be held to their maturity*

The term “held-to-maturity investment” refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the enterprise holds for a definite purpose or the enterprise is able to hold until its maturity. The investment with due date over 12 month but to be due within 12 months (including 12 months) as of the date of the balance sheet that is held to its due date shall be listed as the non-current assets to be due within one year in the balance sheet; the investment to be due within 12 months (including 12 months) shall be listed as other current assets.

Held-to-maturity investment is subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

Effective interest rate method refers to the method by which the amortized cost as well as the interest income or expenditure in previous periods are calculated with effective interest rate of the financial asset or liability (including financial asset or liability portfolio). Effective interest rate refers to the interest rate by which the future cash flow of financial asset or liability is discounted as the current book value during the estimated duration or applicable short duration.

When calculating effective interest rate, the Company will estimate the future cash flow according to all contract terms of the financial asset or liability (taking no account of future credit loss) and take account of various charges, transaction expenses, reduced prices or premium as part of effective interest rate paid or received by various parties to financial asset or liability contract.

③ *Loans and receivables*

Loans and receivables refer to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo-amount is fixed or determinable. The loans and receivables of the Company include notes receivables.

Loans and receivables shall be subsequently recorded with effective interest rate method and derecognized after the cost is amortized. The profit and loss generated from impairment or amortization are included in the current profit and loss.

④ *Financial assets available for sale*

Financial assets available for sale include the non-derivative financial assets for sale designated at the initial recognition and the financial assets not classified into other catalogues. The financial assets for sale to be sold within 12 months as of the date of the balance sheet shall be listed as the non-current assets to be due within one year in the balance sheet.

For financial assets available for sale, subsequent accounting is carried out at the fair value, the profit or loss generated from the change in the fair value, except that impairment loss and balance of exchange related to foreign currency financial asset and amortized cost are included in the current profit and loss, are included in other comprehensive income and included in the current profit and loss when the financial asset is derecognized. However, the equity instrument investment available for sale for which there is no quoted price in the active market and the fair value cannot be reliably calculated is recorded at its cost.

The interest achieved and cash dividends declared by the invested unit during the period when the financial asset is held are included in income from investment.

(3) Financial assets impairment

Apart from financial assets recorded by fair value and whose changes included in current profit or loss, the Group conducts, on balance sheet date, check up over the carrying value of the financial assets. If there is objective evidence that a particular financial asset is impaired, provision for impairment is made.

Objective evidence that a financial asset is impaired, refers to matters that after initial recognition of the financial asset the actual financial assets incurred, the estimated future cash flows affected, and the Group can reliably measure the effect.

The Company makes an independent impairment test on the financial asset with significant single amount; for the financial asset without significant single amount, an independent impairment test is carried out for the financial asset or an impairment test is carried out for the financial asset portfolio with similar credit risk. If the independent impairment test shows no impairment loss, the financial asset (including the financial asset with significant single amount or without significant single amount) shall be included in the financial asset portfolio for another impairment test. If the independent impairment test shows impairment loss, the financial asset shall not be included in the e financial asset portfolio for another impairment test.

① Impairment of held-to-maturity investment, loans and accounts receivables

For the financial asset recorded on the basis of costs or post-amortization costs, the book value is written down to present value of estimated future cash flow, the written-down amount is recognized as impairment loss and included in the current profit and loss. If there is any objective evidence showing that the value of such financial asset has been recovered and is objectively related to the subsequent events that occur after the losses were recognized, the originally recognized impairment losses are reversed, the book value of the financial asset after the impairment losses is reversed shall not more than the amortized cost at the reversing date if the impairment provision is not accrued.

② Impairment of available-for-sale financial assets

The objective evidences showing that available-for-sale financial assets have been impaired include severe or non-transient depreciation of the fair value of equity instrument investment. The Company makes an independent impairment test on available-for-sale equity instrument investment on the date of balance sheet, if the fair value of such equity instrument investment is lower than 50% (including 50%) of its initial cost of investment on the date of balance sheet date or has been lower than its initial cost of investment for more than one year (including one year), such equity instrument investment is impaired; if the fair value of such equity instrument investment is lower than 20% (including 20%) but not to 50% of its initial cost of investment on the date of balance sheet date, the Company will comprehensively consider other relevant factors, including the rate of price fluctuation, etc., to judge whether such equity instrument investment is impaired. The Company calculates the initial cost of investment of available-for-sale equity instrument investment with weighted average method.

When available-for-sale financial assets recorded at the fair value are impaired, the accumulating losses which are originally recognized in stockholders' equity and generated from the decreased fair value are reversed. For the recognized impairment losses of available-for-sale debt instrument investment, if there is any objective evidence showing that the value of such debt instrument investment has been recovered and is objectively related to the subsequent events that occur after the losses were recognized, the originally recognized impairment losses are reversed and included in the current profit and loss. For the recognized impairment losses of available-for-sale debt instrument investment, the recovered fair value is directly included in stockholders' equity.

When available-for-sale financial asset recorded at the cost is impaired, the difference between its book value and the present value discounted by the future cash flow with market return of similar financial assets is recognized as impairment loss and included in the current profit and loss. The recognized impairment loss will not be reversed in the future periods.

(4) Recognition and accounting method for transfer of financial assets

The financial asset meeting one of the following conditions are derecognized: ① The contractual right to receive the cash flow of the financial asset is terminated; ② The financial asset is transferred and almost all risks and rewards generated from the ownership of the financial asset have been transferred to the transferee; ③ The financial asset is transferred, the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset but has given up the control to the financial asset.

If the Company has not transferred or reserved almost all risks and rewards generated from the ownership of the financial asset and has not given up the control to the financial asset, the relevant financial asset and corresponding financial liability shall be recognized to the extent that the transferred financial asset continues to be involved in. The extent that the transferred financial asset continues to be involved in refers to the risk level faced by the Company caused by the change in the value of financial asset. If the financial asset transferred as a whole meets the conditions of derecognition, the difference between the book value of financial asset and the sum of the consideration received because of transferring the financial asset and the change in fair value originally included in other comprehensive income shall be included in the current profit and loss.

If the transfer of partial financial asset satisfies the criteria of derecognition, the difference of book value of the transferred financial asset before and after derecognition should be amortized based on the financial asset's relative fair value. And the difference between the consideration from the transfer and sum of changes in fair value of the derecognized financial asset originally accounted in other comprehensive income and the book value before amortization should be recorded into current profit and loss.

(5) Classification and accounting of financial liabilities

Financial liabilities are classified into the following categories when they are initially recognized: Financial liabilities recorded at fair value with their changes recorded in current profit and loss, and other financial liabilities. For the financial liabilities recorded by fair value with their changes recorded in current profit and loss, the relevant transaction expenses are directly included in the current profits and losses, for other financial liabilities, the relevant transaction expenses are included initial recognition amount.

① *The financial liabilities recorded at fair value with their changes recorded in current profit and loss*

The conditions by which the financial liabilities are classified as trading financial liabilities and designated as the financial liabilities recorded at fair value with their changes recorded in current profit and loss at initial recognition are same as those by which the financial assets are classified as trading financial assets and designated as the financial assets recorded at fair value with their changes recorded in current profit and loss at initial recognition. The Company makes subsequent accounting on the financial liabilities which are recorded at their fair values and of which the variation is included in the current profits and losses, the profit or loss generated from the variation of fair value and the dividends and interest expenses related to such financial liabilities are included in the current profit and loss.

② *Other financial liabilities*

For derivative financial liabilities which there is no quoted price in the active market and the fair value of which cannot be reliably calculated, equity instrument linked and which are settled through the delivery of equity instrument, the Company makes subsequent accounting at the costs. For other financial liabilities, the Company makes subsequent accounting at the amortized costs with effective interest rate method and the profit or loss generated from derecognition or amortization are included in the current profit and loss.

③ *Guarantee contract*

Guarantee contract which is not designated as the financial liabilities recorded at fair value with their changes recorded in current profit and loss is initially recognized at fair value. The Company makes subsequent accounting at the higher between the amount recognized according to Accounting Standards for Business Enterprises No. 13 — Contingencies after initial recognition and the difference between the initially recognized amount and the accumulative amortized amount according to Accounting Standards for Business Enterprises No. 14 — Revenues.

(6) Derecognition of financial liabilities

Only if the whole or partly of the current obligation of the financial liabilities of the Company is relieved, should derecognize the financial liabilities or partly of it. The Company (debtor) signs an agreement with creditor to assume new financial liabilities and

replace the existing financial liabilities and the contract terms of new financial liabilities differ in essence from those of existing financial liabilities, the existing financial liabilities are derecognized and the new financial liabilities are recognized.

For the financial liabilities are derecognized in whole or in part, the difference between the book value of the portion whose recognition has been stopped and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) is included in the current profit and loss.

(7) Writing off financial assets and financial liabilities

The Company has legal right to write off the recognized financial assets and financial liabilities and the right is executable in current, and the Company plans to carry out net settlement or realize financial assets and settle financial liabilities, the net amount after writing off financial assets and financial liabilities shall be disclosed in the balance sheet. In addition to, financial assets and financial liabilities are disclosed in the balance sheet respectively and writing-off is not permitted.

(8) Equity instrument

Equity instrument refers to the contract which can verify possessing the remaining equity in the assets after deducting all liabilities. In business combination, the transaction expenses generated from the combining entity issuing equity instrument writes off the premium of equity instrument, if the premium is insufficient, the retained earnings are written off. For other equity instrument, the differences between the consideration received at the issuing date and the transaction expenses are included in the owner's equity. The Company distributes equity instrument to the holder with various methods (excluding stock dividends) and writes down the owner's equity. Issuing (including refunding), buying-back, sale or writing off equity instrument are treated as change in equity and change in fair value of equity instrument is not recognized. The consideration and transaction expenses paid by the Company to buy back its own equity instrument (including treasury stock) write down the owner's equity and no financial assets are recognized.

11. The accounts receivables

(1) Bad debt provision for individually significant accounts receivable

| | |
|---|---|
| <p>Judgment basis or monetary standards of provision for bad debts of the individually significant accounts</p> | <p>The Company makes an independent impairment test on the accounts receivable with significant single amount. When there are objective evidences which show that the Company cannot receive the accounts receivable, provision for bad debts shall be withdrew. Judgment basis of the individually significant accounts receivable: More than 10 million Yuan.</p> |
|---|---|

Method of individual provision for bad debts of the individually significant accounts receivable. The Company makes an independent impairment test on the accounts receivable with significant single amount, and provision for bad debts shall be set aside on the basis of the balance between the current values of the predicted future cash flow lower than book value. Upon independent individually significant accounts receivable impairment test, the accounts receivable with significant single amounts has not been impaired, it shall be included in receivables portfolio with similar credit risks for impairment test. Otherwise, it shall not be included in receivables portfolio with similar credit risks for impairment test.

(2) Accounts receivable for which bad debt provisions are made on the credit risk portfolio basis

Name of portfolio Allowance method of bad debt provision on the portfolio basis

Account age portfolio Account age analysis method

Related party portfolio

Gold reserve portfolio

In the portfolios, adopting account age analysis method to set aside bad debt provision:

Applicable Inapplicable

| Account age | Provision proportion for accounts receivable | Provision proportion for other accounts receivable |
|--|---|---|
| Within 1 year (including 1 year) | | |
| Within 6 months (including 6 months, similarly hereinafter) | 0.00% | 2.50% |
| 7–12 months | 2.50% | 2.50% |
| 1–2 years | 5.00% | 5.00% |
| 2–3 years | 15.00% | 15.00% |
| Over 3 years | | |
| 3–4 years | 35.00% | 35.00% |
| 4–5 years | 80.00% | 80.00% |
| Over 5years | 100.00% | 100.00% |

In the portfolios, adopting balance percentage method to set aside bad debt provision:

Applicable Inapplicable

In the portfolios, adopting other methods to set aside bad debt provision:

Applicable Inapplicable

| Combination name | Receivables provision proportion | Other receivables' provision proportion |
|---------------------------|---|--|
| Related party combination | 0.00% | 0.00% |
| Reserve combination | 0.00% | 0.00% |

(3) *Accounts receivable with an insignificant single amount but for which the bad debt provision is made individually*

Reason of individually setting aside provision

The characteristics of non-significant accounts receivable which result in independent impairment test include: the accounts receivable for which there are disputes, lawsuit or arbitration; the accounts receivable for which there are obvious evidences showing that the debtor is not likely able to perform the repayment obligation, etc.

Reason of individually setting aside provision

The Company makes an independent impairment test on the accounts receivable with insignificant single amount but there are objective evidences which show that the Company cannot receive the accounts receivable according to the original clauses, if objective evidences show that the accounts receivable with insignificant single amount have not been impaired, and impairment loss should be confirmed and provision for bad debts shall be set aside on the basis of the balance between the current values of the predicted future cash flow lower than book value.

12. Inventory

(1) *Category of Inventory*

Inventories include finished goods and outgoing inventories, etc.

(2) *Evaluation method for acquiring and outgoing inventories*

Inventory is evaluated at its actual costs, including purchase costs and other costs. The cost in dispatch or purchase shall be calculated with the method of weighted mean.

(3) *Recognition of net realizable value and allowance method of depreciation reserves for inventories*

The net realizable value refers to in the daily business activity the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. The company shall confirm the net realizable value of inventories on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventories and the effects of events occurring after the date of the balance sheet.

On the date of balance sheet date, the inventories are recorded at the lower of the costs and the net realizable value. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made and be included in the current profits and losses. The provision for the loss on decline in value of inventories is usually made based on the deference between the cost of individual inventory item and its net realizable value.

After the provision for the loss on decline in value of inventories is made, if the influence factors against which the value of inventory is written down have been disappeared and the net realizable value is higher than its book value, the accrued provision for the loss on decline in value of inventories shall be reversed and included in the current profit and loss.

(4) *Inventory system for inventories:*

Perpetual inventory system.

13. Assets determined to be held for sale

The non-current asset or asset portfolio synchronously satisfying the following conditions shall be determined as the assets to be held for sale: (I) The non-current asset or asset portfolio must be immediately sold in accordance with the common and conventional clauses for sale of this kind of assets under the current conditions; (II) The company has made the resolutions for disposal of the non-current asset or asset portfolio; (III) The company has signed the irrevocable transfer agreement with the assignee; (IV) The transfer will be accomplished within one year.

Non-current assets complying with the conditions of held-for-sale (excluding financial assets and deferred income tax assets) are recorded at the lower of the book value and the fair value minus disposal expenses, if the fair value minus disposal expenses is lower than the original book value, impairment loss shall be recognized.

Non-current assets held for sale and assets and liabilities in disposal portfolio are classified as current assets and liabilities. Discontinuing operation refers to the constituent part which complies with one of the following conditions, has been disposed or classified as held-for-sale and is individually operated or for which the financial statements are individually prepared: (I) The constituent part represents an independent main business or in a main business region; (II) The constituent part is part of disposal plan of an independent main business or in a main business region; (III) The constituent part is only a subsidiary acquired for resale.

14. Long-term equity investment

Long-term equity investment includes: long-term equity investment of the Company in subsidiary; long-term equity investment of the Company in cooperative enterprises and affiliated business.

Subsidiaries refer to the entity which is controlled by the Company. Cooperative enterprises refer to the entity for which the Company implements common control through an independent entity and has the right to jointly arrange its net assets through legal form, contract term and other facts or conditions. Affiliated business refers to the invested unit for which the Company has a significant influence on its financial and operating decision.

Investment in subsidiaries is disclosed with cost method in the Company's financial statement and adjusted with equity method when the combined financial statements are prepared; investment in cooperative enterprises and affiliated business are accounted with equity method.

(1) Determination of initial investment cost

Long-term equity investments formed by business combination: Long-term equity investment formed by the business combination under common control, the investment cost shall be the share of book value of owner's equity acquired at the combination date; Long-term equity investment formed by the business combination not under common control, the investment cost shall be the combined cost. Besides the long-term equity investment formed by the business combination: the initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid; The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

(2) Subsequent accounting and the profit and loss determination

The price of a long-term equity investment accounted by employing the cost method shall be included at its initial investment cost. The dividends or profits declared to distribute by the invested entity shall be recognized as the current investment income. For a long-term equity investment accounted with equity method, if the initial cost is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment is recorded as the cost of the long-term equity investment. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

When adopting equity method for accounting long-term equity investment, the Company shall recognize the investment profits or losses according to the attributable share of the net profits or losses of the invested unit. The net profits or losses of the invested unit shall be recognized to the extent that the book value of long-term equity investment and other long term equity attributable to the net investment of the invested unit in essence are written down to zero, however, if the Company has the obligation to undertake extra losses which comply with the recognition conditions of estimated liabilities according to the contingency standard, investment losses shall be recognized and accounted as estimated liabilities. Where any change is made to the owner's equity other than the net profits and losses, other comprehensive income and profit distribution of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in capital reserve. For the profit or cash dividends from the invested unit, the book value of long-term equity investment shall be correspondingly written down based on the part attributable to the Company. The unrealized profit or loss from the internal transaction with the invested unit shall be offset by the share attributable to the Company calculated as per the proportion

and then the investment income shall be confirmed based on it. As to the unrealized loss from the internal transaction between the Company and the invested unit, if it belongs to the assets impairment loss, it shall not be offset.

(3) Recognition criterion for control, common control and significant influence

The control over the invested unit refer to that the Company enjoys variable return through participating the related activities of the invested unit and have the ability to use the right to the invested unit to influence its return.

In case of the common control over a certain arrangement in accordance with the related provisions, only when the related activities of this arrangement must be agreed by the Company and other participants sharing the control power before the decision is made, can it be deemed as the common control.

In case of power of participation in the decision-making regarding the financial and operation policy of the invested unit, if it cannot control or jointly control with other participants the stipulation of these policies, it shall be deemed that they have significant influence on the invested unit.

15. Investment property

Accounting model of Investment property

Not applicable.

16. Fixed assets

(1) Recognition of fixed assets

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful life of over one accounting year.

(2) Depreciation methods

| Type | Depreciation methods | Useful Life | Residual Value Rate | Annual Depreciation Rate |
|--|-----------------------|-------------|---------------------|--------------------------|
| Houses and buildings | Composite life method | 40 | 5.00% | 2.38 |
| Machinery and equipment | Composite life method | 5 | 5.00% | 19 |
| Transport equipment | Composite life method | 5–10 | 5.00% | 9.5–19 |
| Electronic equipment and other equipment | Composite life method | 5–9 | 5.00% | 10.56–19 |

(3) *Recognition criterion, valuation and depreciation method for financial lease of fixed assets*

None.

17. Construction-in-progress

The construction-in-progress shall be recorded as per the practical construction expenditure, including various construction expenditures, borrowing costs satisfying the capitalization conditions occurring before the assets reach up to the scheduled available state and other necessary expenditures. When the construction-in-progress reaches up to the scheduled available state, it shall be transformed to the fixed assets.

18. Borrowing costs

Borrowing costs include interest on borrowings and auxiliary expenses. As to the borrowing costs occurring for purchasing and building the fixed assets satisfying the capitalization conditions, when the expenditure to acquire and borrowing costs have occurred and the necessary purchase and building activities to guarantee the assets up to the scheduled available or salable state have initiated, the capitalization shall be initiated. When the purchased and built assets satisfying the capitalization conditions reach up to the scheduled available or salable state, the capitalization shall be terminated. Other borrowing costs shall be included in expenses.

Specific borrowings, the amount of interest costs actually incurred on such borrowings for the period shall be capitalized after deducting any interest earned from depositing the unused borrowings in the bank or any investment income arising from the temporary investment of those borrowings during the capitalization period. The capitalized amount of interests on general borrowings shall be determined on the basis that the weighted average of the excess of cumulative assets expenditures over the specific borrowings times capitalization rate of used general borrowings. The capitalization rate is calculated and determined according to the weighted average interest rate of general borrowings

The fixed assets satisfying the capitalization conditions refer to the fixed assets which need a rather long acquisition and construction activities or production activities to reach up to the scheduled available or salable state.

For the fixed assets satisfying the capitalization conditions, capitalization of borrowing costs should be suspended when abnormal interruption has occurred in asset acquisition and construction activities and lasted for more than three month until asset acquisition and construction activities resume.

19. Biological assets

None.

20. Oil and gas assets

None.

21. Intangible asset*(1) Valuation method, service life and depreciation test*

Intangible asset refers to the identifiable non-monetary assets without physical substance owned or controlled by the Company.

An intangible asset shall be recorded initially at cost. Expenditure related to intangible asset, if the relevant economic benefit may flow into the Company and its cost can be reliably calculated, is included in the cost of the intangible asset. Otherwise, the expenditure is included in the current profit and loss. Land use rights acquired are usually accounted as intangible assets. For self-constructed plants and other building, the expenditure related to land use rights and construction cost are accounted as intangible asset and fixed assets respectively. For purchased houses and buildings, the relevant prices are amortized among land use rights and construction cost, if the relevant prices cannot be amortized; they are treated as fixed assets.

For intangible assets with limited service life, the original value is amortized with straight-line method within the estimated service life from the assets are available for use. The intangible assets with uncertain service life shall not be amortized.

At the end of report period, the Company shall check the service life and the amortization method of intangible assets with limited service life and carry out accounting estimate change in case that a change happens. In addition to, the Company shall check the service life of intangible assets with uncertain service life, if there are evidences showing that the intangible assets can bring economic benefit for the Company within the foreseeable period, the Company shall estimate the service life and carry out amortization according to the amortization policy for intangible assets with limited service life.

(2) Accounting policy for internal research, development expenditures

The Company's internal research, development expenditures are divided into the research expenditures and the development expenditures. The research expenditures shall be recorded into the profit or loss for the current period. The development expenditures may be confirmed as intangible assets when they satisfy the following conditions simultaneously; otherwise they shall be included in the profits and losses for the current period:

- ① It is feasible technically to finish intangible assets for use or sale;
- ② The management intend to finish and use or sell the intangible assets;

- ③ The manner by which intangible assets produce economic benefit, it is able to prove that there is market for the products produced by such intangible assets or such intangible assets themselves, for intangible assets for internal use, be able to prove the serviceability; it is able prove how intangible assets to generate economic benefits shall be proved;
- ④ It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources;
- ⑤ The development expenditures of the intangible assets can be reliably calculated, if the Company's internal research, development expenditures are divided into the research expenditures and the development expenditures, they shall be included in the profits and losses for the current period.

22. Long-term assets depreciation

As to fixed assets, construction-in-progress, intangible assets with finite service life and long-term equity investment on subsidiaries, cooperative enterprises, affiliated business and other non-current non-financial assets, the Company judges whether they show the signs of depreciation on the date of balance sheet date. If they show the signs of depreciation, their recoverable amount shall be evaluated and the depreciation test shall be carried out. As to the goodwill, and the intangible assets with uncertain service life and the intangible assets not reaching up to the scheduled available state, no matter whether it shows the depreciation or not, they shall be annually tested for depreciation.

As to the fixed assets, intangible assets, investment in the real estate is recorded at cost and the long-term equity investment, if they shows the depreciation, the depreciation test shall be carried out. In case that the depreciation test results show the amount recoverable of the assets is lower than the book value, The provision for impairment shall be accrued as per the balance and be recorded into the depreciation loss. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. The provision for impairment of the assets shall be calculated and confirmed based on the single asset; if it is difficult to estimate the amount recoverable of a single asset, the assets portfolio in which the asset is located shall be used to determine the amount recoverable of the assets portfolio. The assets portfolio is the min. assets combination that can separately produce the cash in-flow.

For goodwill independently disclosed in the financial statements, when impairment test is carried out, the book value of goodwill will be amortized among the asset units or asset unit portfolio which is expected to benefit from the synergistic effect of business combination. If the result of impairment test suggests the recoverable amount of the asset units or asset unit portfolio including the amortized goodwill is lower than their book value, the corresponding impairment loss shall be recognized. Impairment loss shall write off the book value amortized to the asset units or asset unit portfolio at first, and then write off the book value of other assets according to the proportion of the book value of other assets except goodwill in the asset units or asset unit portfolio.

The above impairment loss shall not be reversed in case that the value is recovered in the future periods after recognition.

23. Long-term unamortized expenses

The long-term unamortized expense, including the improvement in operation and renting and other expenses to be born in this year and the coming periods with the amortization period of over one year, shall be amortized on average in installments of the expected benefit period and shall be listed as the net amount of the actual expenses minus the accumulated amortization.

24. Employee compensation

(1) Short-term compensation

Short-term compensation includes salary, bonus, allowance and subsidy, welfare expense, medical insurance premiums, industrial injury insurance premium, birth insurance premium, housing fund, labor union and educational fund. In the accounting period of the employee providing the service to the company, the short-term compensation actually occurring herefrom shall be determined as the liabilities and included into the current profit or loss or the assets-related cost.

(2) Welfare after demission

Welfare after demission is divided into defined drawing plan and defined benefit plan. Defined drawing plan refers to welfare after demission that the Company pays fixed charges to independent fund and does not assume future payment obligation; defined benefit plan refers to welfare after demission rather than defined drawing plan. In the report period, the Company mainly provides the following welfare after demission:

The Company pays basic endowment insurance organized and implemented by local labor and social security departments for employees, such welfare after demission is defined drawing plan. The Company pays endowment insurance premium every month to local management institution of basic endowment insurance based on the cardinal sum and proportion of basic endowment insurance. After retirement, local labor and social security departments are responsible for paying basic endowment insurance to the retired employees. During the periods when the employees provide service, the Company recognizes the amount payable calculated according to the above regulations as a liability and includes in the current profit and loss or the cost of relevant asset.

(3) Demission welfare

The Company gives compensation to relieve the labor relation with the employees before the labor contract expires or encourage the employees to voluntarily receive cut-down. The liabilities for the employee compensation arising from the demission welfare shall be determined on the following date and recorded into the current profit or loss, whichever is earlier: 1) When the company cannot withdraw the demission welfare provided due to the

cancellation of the labor relation plan or job displacement suggestion unilaterally; 2) When the company confirms the cost or expenses related to the reorganization involving the payment of the demission welfare.

Demission welfare expected to be paid within one year as of the date of balance sheet date, shall be disclosed as current liability.

(4) Other long-term employee welfare

None.

25. Estimated liabilities

When the obligation related to contingencies complies with the following conditions at the same time, an estimated liability is recognized: (1)The obligation is the current obligation assumed by the Company; (2) Implementing the obligation likely results in the flow-out of economic benefit; (3) The amount of obligation can be reliably calculated.

On the date of balance sheet date, estimated liabilities are initially recorded at the best estimate of the expenditure required to settle the current obligation and comprehensive consideration of contingency-related risk, uncertainty and time value of money.

If the total or part expenditure used to settle estimated liabilities is expected to be compensated by a third party, the amount of compensation is recognized individually when it is basically confirm that it can be received to the extent that the book value of estimated liabilities.

26. Share-based payments

(1) Types of share-based payment

The company's share-based payment is settled in equity settled share-based payment.

Share-based payment settled in equity

For exchanging services provided by staff is measured by the fair value of equity instrument granted to staff on the grant date. The amount of fair value is based on the best estimate of the quantity of equity instruments whose right can be exercised within vesting period under the condition that rights may not be exercised until services in vesting period is completed or regulated performance condition is met. If rights can be exercised immediately after relevant costs or expenses is included according to straight-line method or after granting, it is included in relevant costs or expenses on the granting day and increase capital reserve correspondingly.

In terms of share-based payment which is settled in equity and used to exchange services of other parties, if the fair value of other parties' services can be reliably measured, measure according to the fair value on the obtainment day of other parties' services. If the fair value of other parties' services cannot be reliably measured but the fair value of equity instrument

can be reliably measured, one shall measure according to the fair value on service obtainment day of tool of equity, which is included in relevant costs or expenses and increase the owner's equity correspondingly.

(2) Confirmation method of fair value of equity instruments

The Group granted stock option adopts Black-Scholes (B-S) option price model for its pricing. Refer to Note XI Article 2 for specific description.

(3) Confirm the optimal estimated every balance sheet date of equity instrument whose right can be exercised within vesting period; make the best estimation according to the latest obtained subsequent information such as variation of number of staffs who can exercise rights and revise the quantity of equity instrument whose right can be exercised.

(4) Relevant accountant processing of implementing, revising and terminating share-based payment plan

When the Group revises the share-based payment plan and if it has increased the fair value of granted equity instrument, confirm the increase of service obtained according to the increase of equity instrument's fair value. The increase of equity instrument's fair value refers to the difference of fair values on the revision day of equity instrument before and after revision. If the revision has reduced the total of share-based payment fair value or adopted other methods which are unfavorable to the staff, then continue accountant processing to the services obtained, considering this revision has never occurred unless the Group has cancelled part of or all granted equity instruments.

If the granted equity instrument is cancelled during the vesting period, the Group carries out accelerated right exercising handling for cancelling the granted equity instrument and immediately includes the amount which shall be confirmed within residual vesting period into current profits and losses. Meanwhile, confirm capital reserve. In case the staff or other party can choose to meet non-exercisable right conditions but does not meet within the vesting period, the Group carries out cancelling treatment by taking it as granted equity instrument.

(5) Accounting treatment which is involved in the Group and the Group's shareholder or actual controller's share-based payment transaction

For share-based payment transaction which is involved with the Group and the Group's shareholder or actual controller, if one of the transaction enterprises and the enterprise which receives services is in the Group and the other is outside the Group, accountant processing shall be carried out in the Group's consolidated financial statement in accordance with the following regulations:

- ① In case the settlement enterprise settles with its own equity instrument, treat this share-based payment transaction as the share-based payment of equity settlement; otherwise, treat it as share payment of cash settlement.

The settlement enterprise receives investors who serve enterprises; its long-term equity investment to enterprises who receive services shall be confirmed according to the grant date equity instrument's fair value or the fair value which shall bear liabilities; meanwhile, confirm capital reserve (other capital reserve) or liability.

- ② If the enterprise which receives services has no settlement obligations or it is its own equity instrument which grants the enterprise's staff, treat this share-based payment transaction as the share-based payment of equity settlement; if the enterprise which receives services is possessed of settlement obligation and it is not its own equity instrument which grants this enterprise's staff, treat the share-based payment transaction as share-based payment of cash settlement.

For the share-based payment occurred among the enterprises within the Group, if the enterprise which receives services and the settlement enterprise are not the same enterprise, the confirmation and measurement of share-based payment transaction in respective individual financial statement of the enterprise which receives services and the settlement enterprise are treated according to above principles.

27. Preferred shares, perpetual capital securities and other financial instruments

None.

28. Revenue

The amount received shall be determined as per the fair value of the contracted price received or receivable in selling the commodities or providing labor service by this company in the routine operation activities. The income shall be listed as the net amount after deduction of sales allowance and sales return.

(1) Sales of goods

The operating revenue is recognized when the significant risks and rewards of product ownership have been transferred to the buyer, the Company maintains neither managerial right usually associated with ownership nor effective control over products sold, it is probable that the economic benefits will flow to the Company, and relevant revenue and costs can be calculated reliably. The Company's goods include hardware (software) products and software products researched and developed by the Company. Software products researched and developed by the Company refer to the software products which are certified by National Copyright Administration and have the copyright which is not transferred when the products are sold. The Company recognizes the operating revenue when the Company receives the confirmation of goods receipt and maintains neither managerial right nor effective control over products sold.

(2) Rendering of services

When the results of rendering of services can be reliably estimated, the service revenue will be recognized upon completion percentage method on the date of balance sheet date.

That the results of rendering of services can be reliably estimated refers to meeting the following conditions at the same time: ① The amount of revenue can be reliably calculated; ② relevant economic benefits can flow into the Company; ③ The project schedule can be reliably confirmed; ④ The cost occurred and to be occurred can be reliably calculated.

If the results of rendering of services cannot be reliably estimated, the service revenue will be recognized at the costs of services which have occurred and are expected to be compensated and included in the current expenses. If the occurred costs of services are expected not to be compensated, the service revenue will not be recognized.

The Company provides government, public utilities, customer in financial, energy and other industries with series of services with industry application software development as the core, covering IT infrastructure construction, system integration and system operating maintenance, usually including computer software, hardware products and relevant equipment installation, system integration as well as operation and maintenance services.

When the contract or agreement signed between the Company and customer covers sales of goods and rendering of services, if sales of goods and rendering of services can be distinguished and accounted individually, sales of goods and rendering of services are accounted respectively. If sales of goods and rendering of services cannot be distinguished because of the characteristics of business, they are recognized respectively according to the following conditions: A. As to sales of goods and rendering of services initiated and accomplished in the same accounting year, the revenue is recognized according to acceptance certificate of project when the project is completed, and the recognized amount is the total amount in final account for completed project or contract; B. If the project starts and completes in different fiscal years, and the results of project can be reliably estimated on the date of balance sheet date, the revenue is recognized as per the percentage of the project schedule, which is determined by the proportion of the actual occurred costs in the total estimated cost of the contract.

(3) Transfer of asset use rights

Interest income is calculated with effective interest rate and recognized on the date when other party uses cash and cash equivalents of the Company.

The income from operating lease is recognized with straight-line method during the lease term.

29. Government grants

(1) Judgment and accounting treatment methods of asset-related government grants

Asset-related government grants are recognized as a deferred income and allocated to current profit or loss over the expected useful life of the relevant asset by equal annual installments.

(2) Judgment and accounting treatment methods of income-related government grants

Income-related government grants are applied to reimbursement of related costs or losses in subsequent periods are recognized as deferred income and taken to current profit or loss for the period when the related costs are recognized. Government grants applied to reimbursement of related costs or losses already incurred are directly recognized in current profit or loss.

30. Deferred tax assets and deferred tax liabilities

Deferred tax assets or deferred tax liabilities are calculated based on the difference between the carrying amounts of the assets or liabilities and their tax bases (temporary differences). As to the deductible losses that can be used to deduct the taxable income in the following years in accordance with the provisions of the tax law, the corresponding deferred tax assets shall be confirmed. As to the temporary differences occurring in the initial confirmation of the goodwill, the corresponding deferred income tax liability shall not be confirmed. As to the temporary differences formed in the initial confirmation of the assets or liability occurring in the non-business combination transaction not affecting the accounting profit or the taxable income (or deductible loss), the corresponding deferred income tax assets and the deferred income tax liability shall not be confirmed. On the balance sheet day, the deferred income tax assets and deferred income tax liabilities shall be accounted at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

For the taxable temporary differences related to the subsidiaries, affiliated business and cooperative enterprises, deferred income tax liabilities shall be confirmed. If the investing enterprise can control the time of the reverse of temporary differences and the temporary differences are unlikely to be reversed in the excepted future, it shall not be recognized. For the deductible temporary difference related to the subsidiaries, affiliated business and cooperative enterprises, when it is likely to be reversed in the excepted future and can be used to write off the taxable temporary differences, the deferred tax assets shall be recognized.

The deferred tax assets shall be recognized no more than the taxable income used to write off the deductible temporary difference, the deductible losses and tax credits. On the date of balance sheet date, the Company checks the book value of deferred income tax assets, if the Company will not likely be able to obtain sufficient taxable income to deduct the benefit from deferred income tax assets, the book value of deferred income tax assets is written down. When the Company will likely be able to obtain sufficient taxable income, the written down amount shall be reversed.

When the following conditions are met at the same time, the net amount after writing off deferred income tax assets and deferred income tax liabilities is disclosed individually:

Deferred income tax assets and deferred income tax liabilities are related to income tax imposed by the same tax collection and management department on the same subject of taxation;

In the Company, the subject of taxation has the legal right to settle the current income tax assets and income tax liabilities at the net amount.

31. Lease

(1) Operating lease

The rent expenditure for operational leasing shall be recorded into the related assets cost or the current profit and loss in the leasing period as per the method of lines. The initial direct costs shall be recorded into the current profit and loss. Contingent rentals shall be recorded into the current profit and loss on the actual occurring date.

(2) Financing leases

None.

32. Other important accounting policies and accounting estimates

None.

33. Significant changes in accounting policies and accounting estimates

(1) Significant changes in accounting policies

Applicable Inapplicable

(2) Significant changes in accounting estimates

Applicable Inapplicable

34. Other

Critical assumptions and uncertain factors used for significant accounting judgment and estimation

During adopting accounting policies, because of the uncertainties in business activities, the Company needs to make a judgment, estimation and assumption on the book value of items in financial statements which cannot be accurately calculated. Such judgment, estimation and assumption are based on the historical experiences of the management in the past, considering other relevant factors. Such judgment, estimation and assumption will affect the report amount of revenue, expense, assets and liabilities as well as the disclosure of contingent liabilities on the date of balance sheet date. However, the uncertainties in such estimation may result in significant adjustment of the book value of assets or liabilities which will be affected in the future.

The Company regularly checks the above judgment, estimation and assumption on the base of sustainable operation, so the change in accounting estimation only affects the period when the change happens, and the influence amount is recognized in the period when the

change happens; if the change affects not only the period when the change happens but also future periods, the influence amount is recognized in the period when the change happens and future periods.

On the date of balance sheet date, the Company needs to make a judgment, estimation and assumption on items in financial statement in the following significant aspects:

(1) Recognition of income — project schedule

For industry solution and service contract project between the Company and the customers, if the project starts and completes in different fiscal year, and the results can be reliably estimated on the date of balance sheet date, the income is recognized as per the percentage of the project schedule, which is determined by the proportion of the actual occurred costs in the total estimated cost of the contract. The Company needs to make a significant judgment when determining the project schedule, total estimated cost of the contract and the recoverability of the contract. The management make the judgment based on historical experiences and work. The change in accounting estimation on total estimated cost of the contract and the results of contract may affect operating revenues, operating costs as well as profit and loss in the period when the change happens or future periods, and may constitute a significant influence.

(2) Provision for bad debt

According to accounting policies of accounts receivable, the Company accounts bad debt loss with allowance method. Accounts receivable is impaired based on the evaluation on the recoverability of accounts receivable. The management needs to make a judgment and estimation to determine whether accounts receivable are impaired. The difference between the actual result and original estimation will result in the book value of accounts receivable and the accrued or reversed provision for bad debt during the period when the estimation is changed.

(3) Provision for inventory depreciation

According to accounting policies of inventory, the Company accounts at the cost and net realizable value, whichever is the lower, for inventory with the cost higher than the net realizable value and old-fashioned and unsalable inventory, the provision for the loss on decline in value of inventory shall be make. The loss on decline in value of inventory and net realizable value are based on the evaluation on the vendibility of inventory and its net realizable value. The management shall make a judgment and estimation to determine the loss on decline in value of inventory on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventory and the effects of events occurring after the date of the balance sheet. The difference between the actual result and original estimation will result in the book value of inventory and the accrued or reversed provision for inventory during the period when the estimation is changed.

(4) Impairment of available-for-sale financial assets

The Company depends on the judgment and assumption to determine whether available-for-sale financial assets are impaired and whether impairment loss shall be recognized in income statement. When the management makes a judgment and assumption, the Company need to evaluate the degree to which the fair value of the investment is lower than its cost and the duration, financial condition of invested entity and short-term business perspective, including industry situation, technological change, credit rating, default rate and the risk of the counterparty.

(5) Provision for non-financial non-current asset impairment

On the date of balance sheet date, the Company judges whether there are impairment signals of non-current assets rather than financial assets. For intangible assets with uncertain service life, in addition to impairment test once a year, the impairment test is carried out when there are impairment signals. Other non-current assets rather than financial assets, the impairment test is carried out when there are signals showing their book value cannot be recovered.

When the book value of asset or asset unit is higher than it recoverable amount, that is the net amount after the fair value minus disposal expenses and the present value of future cash flow, whichever is the higher, the asset is impaired.

When the present value of future cash flow is estimated, the Company needs make a significant judgment on the output, selling price, relevant operating cost and discount rate used to calculate the present value for the asset (or asset unit). When estimating the recoverable amount, the Company will use all available relevant data, including the prediction of the relevant output, selling price and relevant operating cost based on reasonable and supportable assumption.

The Company carries out impairment test at least once a year for goodwill, which needs to predict the present value of future cash flow of goodwill asset unit or asset unit portfolio. When predicting the present value of future cash flow, the Company needs to predict the cash flow generated from future asset unit or asset unit portfolio and select appropriate discount rate to determine the present value of future cash flow.

(6) Depreciation and amortization

After considering the residual value of fixed assets and intangible assets, the Company makes provision for depreciation and amortization with straight-line method within the service life. The Company regularly checks the service life to determine depreciation and amortization expenses recognized in each report period. The service life is determined by the Company based on previous experience of similar assets and combined with expected technology. If there is a significant change in pervious estimation, depreciation and amortization expenses will be adjusted in future periods.

(7) Development expenditure

When determining the amount of capitalization, the management needs to make an assumption on estimated future cash flow of relevant asset, applicable discount rate and estimated benefit periods.

(8) Deferred income tax assets

When the taxable profit is sufficient to deduct the loss, the Company will recognize deferred income tax assets based on all unutilized tax loss, for which the management of the Company need to make a good deal of judgment to estimate the time and amount of future taxable profit and combine tax planning strategy to determine the amount of deferred income tax assets to be recognized.

(9) Income tax

During the normal business activities, there are certain uncertainties for the final tax administration and calculation of part transactions. Whether part items can be disbursed before tax needs to be approved by the competent tax administration institution. If the final recognized results of such tax administration differs from initial estimated amount, the difference will influence the current income tax and deferred income tax during the final recognition period.

(10) Estimated liabilities

Based on contract terms, existing knowledge and historical experience, the Company makes corresponding provision for product quality guarantee, estimated contract loss, liquidated damages caused by delay in delivery and other estimations. When such contingencies form a current obligation and implementing the current obligation may cause economic benefit to flow out the Company, the Company will recognize a estimated liabilities at the best estimate of the expenditure required to settle the current obligation. Estimated liabilities are recognized and recorded mainly depending on the judgment of the management. During the judgment, the Company needs to evaluate the risk, uncertainty, the time value of money and other factors related to such contingencies.

VI. TAX

1. Main tax types and tax rates

| Tax type | Basis of taxation | Tax rate |
|--|--|-----------------|
| VAT | Tax amount payable is calculated by taxable sales multiplied by applicable tax rate and deducted the current deductible income tax | 17%, 6% |
| Consumer tax | | |
| Business tax | Taxable turnover | 3% |
| Urban maintenance and construction tax | Added-value tax and business tax paid | 7% |
| Enterprise income tax | Taxable income | 12.5%, 15%, 25% |

Where income tax rate taxpaying bodies of different enterprises exist, situation description shall be disclosed.

| Name of subject of taxation | Tax rate of enterprise income tax |
|--|--|
| Taiji Computer Corporation Limited | 15% |
| Beijing Smartdot Science and Technology Ltd. | 15% |
| Nanjing Smartdot Information Technology Ltd. | 12.5% |
| Beijing Taiji Information System Technology Co.,Ltd. | 15% |
| Other subsidiaries | 25% |

2. Tax preference

(1) Favorable income tax

- ① In accordance with Notification on Several Policies for Encouraging the Development of Software Industry and Integrated Circuit Industry Issued by the State Council (GF [2000] No. 18) and Notification on Policies for Corporate Income Tax to Further Encourage the Development of Software Industry and Integrate Circuit Industry Issued by Ministry of Finance and SAT(CS [2012] No. 27), the Company was recognized as a high-tech enterprise by Beijing Municipal Science & Technology Commission, Beijing Bureau of Finance, Beijing State Administration of Taxation and Local Taxation Bureau, certificate No.: GR201411001519 in October, 2014, with effective period of 3 years, The tax rate is 15%; its subsidiary Smartdot Technologies Co., Ltd. (Beijing) is applicable for the same corporate income tax rate. Its new-high technology recognition time is October 2014; the high-tech certificate No. is GR201411002993, with 3 years of validity.
- ② Nanjing Smartdot founded in 2010, a software enterprise recognized by Jiangsu Economic and information commission, certificate No. S R-2012-A0140. In accordance with Notice of Ministry of Finance and SAT on Several Preferential Policies Related to Enterprise Income Tax (CS [2008]1), new software production enterprise in China, after affirmation, shall enjoy the former two-year income tax exemptions and later six- year halve since profit-making year, the income tax of Smartdot Donghe and Nanjing Smartdot is reduced by half in 2014, with applicable tax rate of 12.5%.
- ③ Beijing Taiji Information System Technology Co., Ltd., founded in October, 2011, is a high-tech enterprise approved by Beijing Municipal Science & Technology Commission, Beijing Bureau of Finance, Beijing State Administration of Taxation and Local Taxation Bureau, certificate No.: GF201411007849, with effective period of 3 years, and provided with preferential tax policy of 15% of enterprise income tax rate.

In accordance with the Administrative Measures for the Pre-tax Deduction of Enterprise Research and Development Expenses (Trial) (GSF [2008] No. 116), Notification on Pilot Policy for Additionally Calculating and Lessing Research and Development Expenses Related to National Innovation Model in Zhongguancun, Donghu, Zhangjiang Area and He-Wu-Beng Reform Testing Areas of Independent Innovation (CS [2013] No. 13) issued by Ministry of Finance and SAT, technological development expense arising from the development of new products, technologies and processes shall be deducted before tax, and the Company and Smartdot can additionally calculate and deduct the following expenditures in the calculation of the taxable income amount on the basis of 50% of the actual amount incurred.

(2) Refund of VAT

In accordance with Notification on Policies for VAT of Software Product issued by Ministry of Finance and SAT (CS [2011] No. 100), for the software self-developed by the Company, VAT is levied with the statutory tax rate of 17%, drawback policy of VAT is applied for the actual tax burden over 3%.

In accordance with Notification on Collecting VAT for Transportation Industry and Part Modern Service Industry in 8 Provinces and Cities Including Beijing jointly issued by Ministry of Finance and SAT (CS [2012] No. 71), taxpayer in the pilot is exempted from VAT for providing technical transformation, technological development and relevant technology consulting and technical services. Since September 1, 2012, the Company, Smartdot, Taiji Information are exempted from VAT for providing technological development and relevant technology consulting and technical services.

In accordance with Replay about Exemption from VAT for Military Products Produced and Sold by Military Enterprise issued by Haidian District National Tax Bureau (HGSPF [2008] No. 05029), Taiji Information complies with the conditions of military enterprise and is exempted from VAT for producing and selling products complying with the document requirements.

3. Other**VII. NOTES TO THE ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENT****1. Cash on hand and in bank***Unit: Yuan*

| Items | Ending balance | Beginning balance |
|----------------------|--------------------------------|------------------------------|
| Cash | 233,157.30 | 650,686.15 |
| Cash in bank | 1,006,499,165.90 | 930,299,080.06 |
| Other monetary funds | <u>29,378,558.02</u> | <u>61,090,031.28</u> |
| Total | <u><u>1,036,110,881.22</u></u> | <u><u>992,039,797.49</u></u> |

Including: Total of money deposited abroad

Other monetary funds include letter of guarantee, letter of credits, etc. Including, letter of guarantee cash deposit of above 3 months is 26,211,814.02 yuan (Dec. 31, 2014: 3,942,134.58 yuan); of bank deposit, above 3 months fixed deposit is 0.00 yuan (Dec. 31, 2014: 137,250,887.73 yuan)

2. Financial assets which are recorded at their fair value and the variation of which is recorded into the profits and losses of the current period

Unit: Yuan

| Item | Ending balance | Initial balance |
|---|----------------|-----------------|
| Trading financial assets | | |
| Including: debt instrument investment | | |
| Equity instrument investment | | |
| Derived financial asset | | |
| Others | | |
| Financial asset which is designated to be measured with fair value and its variation is included into current profits and losses. | | |
| Including: debt instrument investment | | |
| Equity instrument investment | | |
| Others | | |
| Total | 0.00 | 0.00 |

Other notes:

3. Derivative financial assets

Applicable Inapplicable

4. Notes receivable

(1) Disclosure of notes receivable on classification

Unit: Yuan

| Items | Ending balance | Beginning balance |
|------------------------|----------------|-------------------|
| Bank's acceptance bill | 78,476,300.04 | 44,500,747.46 |
| Trade acceptance | 147,881,124.28 | 12,460,860.00 |
| Total | 226,357,424.32 | 56,961,607.46 |

(2) Notes receivable which have been pledged at the end

Unit: Yuan

| Items | Pledged amount at the end |
|------------------------|------------------------------|
| Bank's acceptance bill | |
| Trade acceptance | |
| Total | 0.00 |

(3) Notes receivable has already endorsed or discounted at the end but not yet expired on the date of balance sheet date

Unit: Yuan

| Items | Ending derecognized amount | Ending un- derecognized amount |
|------------------------|----------------------------------|-----------------------------------|
| Bank's acceptance bill | 113,578,353.60 | |
| Trade acceptance | 2,350,000.00 | |
| Total | 115,928,353.60 | 0.00 |

(4) Notes transferred to accounts receivable because drawer of the notes fails to execute the contract or agreement

Unit: Yuan

| Items | Notes transferred to accounts receivable at the end |
|------------------|--|
| Trade acceptance | |
| Total | 0.00 |

Other note

5. Accounts receivable

(1) Disclosure of accounts receivable on classification

Unit: Yuan

| Classification | Ending balance | | | | | Beginning balance | | | | |
|--|-------------------------|----------------|------------------------|-------------------------|-------------------------|-------------------------|----------------|------------------------|-------------------------|-------------------------|
| | Book balance | | Provision for bad debt | | | Book balance | | Provision for bad debt | | |
| | Amount | Proportion | Amount | Proportion of provision | Book value | Amount | Proportion | Amount | Proportion of provision | Book value |
| Prepared receivables whose single amount is big and separately requires bad debt | | | | | | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 2,243,928,807.37 | 100.00% | 169,728,271.56 | 7.56% | 2,074,200,535.81 | 1,616,159,127.74 | 100.00% | 126,403,074.40 | 7.82% | 1,489,756,053.34 |
| Prepared receivables whose single amount is not big and separately requires bad debt | | | | | | | | | | |
| Total | 2,243,928,807.37 | 100.00% | 169,728,271.56 | 7.56% | 2,074,200,535.81 | 1,616,159,127.74 | 100.00% | 126,403,074.40 | 7.82% | 1,489,756,053.34 |

Accounts receivable with significant single amount and provision for bad debts individually at the end of the period:

Applicable Inapplicable

| Receivables (in unit) | Receivables | Ending balance | | Reason of provision |
|-----------------------|-------------|------------------------|----------------------|---------------------|
| | | Provision for bad debt | Provision proportion | |
| Total | | | | |

The accounts receivable accrued for provision of bad debt by age analysis method in:

Applicable Not applicable

(3) Write-off of bad debts occurred during this fiscal year

Unit: Yuan

Items **Write-off amount**

Of which, details of writing off significant receivables:

Unit: Yuan

| Name of company | Nature of receivables | Write-off amount | Reason | Write-off procedure | Amount from associated transaction |
|-----------------|-----------------------|------------------|--------|---------------------|------------------------------------|
| Total | — | 0.00 | — | — | — |

Details of writing off accounts receivable:

(4) Top 5 other receivables sorted by ending balance of debtors

The total amount of top 5 receivables sorted by ending balance of debtors is 278,819,365.19 Yuan, accounting for 12.43% of the total amount of ending balance of accounts receivable, the total amount of the corresponding accrual provision for bad debt at the end of period is 444,500.48 Yuan.

(5) Accounts receivable derecognized because of transfer of financial assets

(6) Amount of assets or liabilities for which accounts receivable is transferred but continue involve in

6. Prepayments

(1) Disclosure of prepayments on age

Unit: Yuan

| Age | Ending balance | | Beginning balance | |
|---------------|----------------|------------|-------------------|------------|
| | Amount | Proportion | Amount | Proportion |
| Within 1 year | 136,532,465.83 | 76.15% | 155,106,644.68 | 79.14% |
| 1-2 years | 10,842,999.41 | 6.05% | 18,742,319.53 | 9.56% |
| 2-3 years | 13,548,094.54 | 7.55% | 21,128,244.33 | 10.78% |
| Over 3 years | 18,374,997.33 | 10.25% | 1,014,048.82 | 0.52% |
| Total | 179,298,557.11 | — | 195,991,257.36 | — |

Details for not settling the significant prepayment with age over 1 year in time:

The prepayment with age over 1 year mainly is the purchase cost to be settled for unfinished project.

(2) *Top 5 ending balance of prepayments sorted by the unit prepaid*

The total amount of top 5 ending balance of prepayments is 104,066,776.00 Yuan, accounting for 58.04% of total ending balance of prepayments.

7. Interest receivable

(1) *Disclosure of interest receivable on classification*

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--------------------|----------------|---------------------|
| Fixed time deposit | | 7,034,544.96 |
| Entrust loans | | |
| Bond investment | | |
| Total | <u>0.00</u> | <u>7,034,544.96</u> |

(2) *Significant overdue interests*

| Borrowing unit | Ending balance | Overdue time | Overdue reason | Whether impairment happens and the base of judgment |
|----------------|----------------|--------------|----------------|---|
| Total | <u>0.00</u> | <u>—</u> | <u>—</u> | <u>—</u> |

Other note:

8. Dividends receivable

(1) *Dividends receivable*

Unit: Yuan

| Items (or the invested unit) | Ending balance | Beginning balance |
|------------------------------|----------------|-------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

(2) Significant dividends receivable with age over 1 year

Unit: Yuan

| Items (or the invested unit) | Ending balance | Age | Reason of unrecovered amount | Whether impairment happens and the base of judgment |
|------------------------------|----------------|-----|------------------------------|---|
| Total | 0.00 | — | — | — |

Other note:

9. Other receivables

(1) Disclosure of other receivables on classification

Unit: Yuan

| Classification | Book balance | | Ending balance | | | Book balance | | Beginning balance | | |
|--|----------------|------------|----------------|-------------------------|----------------|----------------|------------|-------------------|-------------------------|----------------|
| | Amount | Proportion | Amount | Proportion of provision | Book value | Amount | Proportion | Amount | Proportion of provision | Book value |
| Prepared receivables whose single amount is big and separately requires bad debt | | | | | | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 197,396,364.77 | 100.00% | 26,617,192.91 | 13.48% | 170,779,171.86 | 195,196,079.41 | 100.00% | 28,246,984.02 | 14.47% | 166,949,095.39 |
| Prepared receivables whose single amount is not big and separately requires bad debt | | | | | | | | | | |
| Total | 197,396,364.77 | 100.00% | 26,617,192.91 | 13.48% | 170,779,171.86 | 195,196,079.41 | 100.00% | 28,246,984.02 | 14.47% | 166,949,095.39 |

Accounts receivable with significant single amount and provision for bad debts individually at the end of the period:

Applicable Not applicable

Unit: Yuan

| Other receivables (in unit) | Other receivables | Ending balance Bad debt provision | Provision proportion | Provision reason |
|-----------------------------|-------------------|--------------------------------------|----------------------|------------------|
| Total | | | — | — |

The accounts receivable accrued for provision of bad debt by age analysis method in portfolio:

Applicable Inapplicable

Unit: Yuan

| Age | Ending balance | | Proportion of provision |
|------------------------|-----------------------|------------------------|-------------------------|
| | Other receivables | Provision for bad debt | |
| Sub-item within 1 year | | | |
| Within 1 year | 97,448,811.03 | 2,436,220.29 | 2.50% |
| Sub-item within 1 year | 97,448,811.03 | 2,436,220.29 | 2.50% |
| 1-2 years | 28,779,009.56 | 1,438,950.48 | 5.00% |
| 2-3 years | 10,574,212.66 | 1,586,131.90 | 15.00% |
| Over 3 years | | | |
| 3-4 years | 9,540,491.97 | 3,339,172.19 | 35.00% |
| 4-5 years | 1,196,876.08 | 957,500.86 | 80.00% |
| Over 5 years | <u>16,859,217.19</u> | <u>16,859,217.19</u> | <u>100.00%</u> |
| Total | <u>164,398,618.49</u> | <u>26,617,192.91</u> | <u>16.19%</u> |

Details for confirmation of this portfolio:

The accounts receivable accrued for provision of bad debt by the percentage of balance method in portfolio:

Applicable Not applicable

Unit: Yuan

| Nature portfolio | Ending balance | | Proportion of provision |
|------------------|-----------------------------|-----------------------------|-----------------------------|
| | Other receivables | Provision for bad debt | |
| Total | <u> </u> | <u> </u> | <u> </u> |

The accounts receivable accrued for provision of bad debt by age analysis method in:

Applicable Inapplicable

| Nature portfolio | Other receivables | Ending balance | |
|------------------------|----------------------|-----------------------------|-----------------------------|
| | | Provision for bad debt | Proportion of provision |
| Reservation fund, etc. | 32,997,746.28 | | |
| Total | <u>32,997,746.28</u> | <u> </u> | <u> </u> |

(2) *Bad debt recovery and bad debt allowance*

This year, the amount of bad debt allowance is 1,629,791.11 Yuan; and the amount of bad debt recovery is 0.00 Yuan. This year, significant bad debt recovery:

Unit: Yuan

| Name of company | Recovered amount | Recovery method |
|---|---------------------|-----------------------------|
| Suining City River Channel Management Office | 317,089.35 | Cash on hand and in bank |
| Shanghai High People's Court | 638,872.50 | Cash on hand and in bank |
| Total | <u>955,961.85</u> | <u> </u> |

(3) *Details of writing off other receivables*

Unit: Yuan

| Items | Write-off amount |
|-------|---------------------|
|-------|---------------------|

Details for writing off other accounts receivable:

Unit: Yuan

| Name of company | Nature of other receivable | Write-off amount | Reason | Write-off procedure | Amount from associated transaction |
|-----------------|----------------------------------|---------------------|-----------------------------|-----------------------------|--|
| Total | <u> </u> | <u>0.00</u> | <u> </u> | <u> </u> | <u> </u> |

Details for writing off other accounts receivable:

(4) Information for other accounts receivable classified by nature

Unit: Yuan

| Nature | Ending book balance | Beginning book balance |
|------------------------|------------------------|---------------------------|
| Reservation fund, etc. | 32,997,746.28 | 26,339,572.79 |
| Deposit | <u>164,398,618.49</u> | <u>168,856,506.62</u> |
| Total | <u>197,396,364.77</u> | <u>195,196,079.41</u> |

(5) Information for top 5 ending balance of other accounts receivable sorted by the borrowers

Unit: Yuan

| Name of company | Nature | Ending balance | Age | Proportion in total ending balance of other accounts receivable | Ending balance of provision for bad debt |
|---|---------------------|----------------------|----------------|---|---|
| Beijing Information Resource Management Center | Performance bond | 5,441,440.90 | 7–12 months | 2.76% | 136,036.02 |
| Chinese conic Import & Export Company | Deposit | 4,443,603.75 | Over 5 years | 2.25% | 4,443,603.75 |
| Guoxin Tendering Group Co., Ltd. | Bid bonds | 4,407,000.00 | Within 1 year | 2.23% | 111,050.00 |
| Beijing Disabled Persons' Federation Information Center | Performance bond | 3,339,440.00 | Within 2 years | 1.69% | 137,892.00 |
| Beijing No. 1 Intermediate People's Court | Deposit | 3,127,492.00 | 7–12 months | 1.58% | 78,187.30 |
| Total | — | <u>20,758,976.65</u> | — | <u>10.51%</u> | <u>4,906,769.07</u> |

(2) Provision for depreciation of inventory

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | | Decrease in 2015 | | Ending balance |
|--|---------------------|------------------|-------|-----------------------|-------|---------------------|
| | | Provision | Other | Reversal or write-off | Other | |
| Raw materials | 352,475.79 | | | | | 352,475.79 |
| Goods in process | 0.00 | | | | | 0.00 |
| Finished goods | 2,640,421.37 | | | | | 2,640,421.37 |
| Revolving materials | 0.00 | | | | | 0.00 |
| Consumptive biological assets | 0.00 | | | | | 0.00 |
| Assets which are finished but not settled in construction contract | 0.00 | | | | | 0.00 |
| Outgoing goods | <u>1,230,857.23</u> | | | | | <u>1,230,857.23</u> |
| Total | <u>4,223,754.39</u> | | | | | <u>4,223,754.39</u> |

(3) Details of the capitalization amount of borrowing costs included in the ending balance of inventories

(4) Assets which are finished but not settled in construction contract

Unit: Yuan

| Items | Amount |
|--|--------|
| Accumulative cost incurred | |
| Accumulative confirmed gross profit | |
| Less: estimated loss | |
| Settlement amount | |
| Assets which are finished but not settled in construction contract | 0.00 |

Other note:

11. Assets classified as held for sale

Unit: Yuan

| Items | Ending book value | Fair value | Estimated disposal costs | Estimated disposal time |
|-------|-------------------|-------------|--------------------------|-------------------------|
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>—</u> |

Other note:

12. Non-current assets due within one year*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|-------|-------------------|----------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

13. Other current assets*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|----------------|---------------------|----------------------|
| Tax deductible | <u>7,944,419.68</u> | <u>4,031,734.24</u> |
| Total | <u>7,944,419.68</u> | <u>4,031,734.24</u> |

Other note:

14. Available-for-sale financial assets*(1) Information for available-for-sale financial assets**Unit: Yuan*

| Items | Ending balance | | | Beginning balance | | |
|--------------------------------------|----------------------|-------------------------|----------------------|----------------------|-------------------------|----------------------|
| | Book balance | Impairment provision | Book value | Book balance | Impairment provision | Book value |
| Available-for-sale debt instrument: | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Available-for-sale equity instrument | 19,220,000.00 | 5,220,000.00 | 14,000,000.00 | 20,220,000.00 | 5,220,000.00 | 15,000,000.00 |
| Accounted at fair value | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Accounted at cost | <u>19,220,000.00</u> | <u>5,220,000.00</u> | <u>14,000,000.00</u> | <u>20,220,000.00</u> | <u>5,220,000.00</u> | <u>15,000,000.00</u> |
| Total | <u>19,220,000.00</u> | <u>5,220,000.00</u> | <u>14,000,000.00</u> | <u>20,220,000.00</u> | <u>5,220,000.00</u> | <u>15,000,000.00</u> |

(2) Available-for-sale financial assets accounted at fair value at the end of accounting period

Unit: Yuan

| Classification of financial assets available for sale | Available-for-sale equity instrument | Available-for-sale debt instrument | Total |
|---|--------------------------------------|------------------------------------|-------|
| Cost of equity instrument/amortized cost of debt instrument | | | |
| Fair value | | | |
| Fair value variation amount which is added up into other comprehensive earnings | | | |
| Depreciation devalue amount | | | |

(3) Available-for-sale financial assets accounted at cost at the end of accounting period

Unit: Yuan

| The invested unit | The beginning of the period | Book balance | | The end of the period | The beginning of the period | Impairment provision | | The end of the period | Proportion of shares in the invested company | Cash bonus in 2015 |
|---|-----------------------------|------------------|---------------------|-----------------------|-----------------------------|----------------------|------------------|-----------------------|--|--------------------|
| | | Increase in 2015 | Decrease in 2015 | | | Increase in 2015 | Decrease in 2015 | | | |
| CET Xi'an Information Industry Park Development Co., Ltd. | 8,000,000.00 | | | 8,000,000.00 | | | | | 10.00% | |
| Beijing Taiji Vision Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | 5,000,000.00 | | | 5,000,000.00 | 20.00% | |
| Sanxia Hi-Tech Information Technology Co., Ltd. | 1,000,000.00 | | | 1,000,000.00 | | | | | 10.00% | 134,613.67 |
| Beijing Yuchang Pawning Co., Ltd. | 1,000,000.00 | | 1,000,000.00 | | | | | | | |
| Shanghai Taiji Huafang Information System Co., Ltd. | 220,000.00 | | | 220,000.00 | 220,000.00 | | | 220,000.00 | 11.00% | |
| Total | 20,220,000.00 | | 1,000,000.00 | 19,220,000.00 | 5,220,000.00 | | | 5,220,000.00 | — | 134,613.67 |

(4) *Change of available-for-sale financial assets in report period*

Unit: Yuan

| Classification of financial assets available for sale | Available-for- sale equity instrument | Available-for- sale debt instrument | Total |
|--|---|---|-------|
| Initially provided impairment amount | | | |
| Current period provision | | | |
| Including: transferred in from other comprehensive profits | | | |
| Decrease in 2015 | | | |
| Including: reversed fair value which is recovered after the report period | | | |
| Ending balance of provision for impairment loss | | | |

(5) *Description of slump or continuous falling of fair value of available-for-sale equity tool in the end of period*

Unit: Yuan

| Equity instrument available for sale items | Cost of investment | Ending fair value | Falling percentage of fair value in relative to cost (%) | Continuous falling period (months) | Amount of provision of impairment | Reason for not making provision for impairment loss |
|---|-----------------------|----------------------|--|--|---|---|
| Total | — | — | — | — | — | — |

Note: For available-for-sale equity instrument whose end of term fair value depreciation relative to cost has reached or exceeded 50%, or the continuous depreciation time has reached or exceeded 12 months and has not yet conducted provision for impairment according to the difference between cost and end of term fair value. The company shall describe in detail the cost each investment and the amount of fair value, fair value's depreciation relative to cost, continuous depreciation time, impairment provision, and the reason of not having impairment provision according to the difference between cost and end of term fair value.

Other note:

15. Held-to-maturity investment*(1) Information for held-to-maturity investment*

Unit: Yuan

| Items | Ending balance | | | Beginning balance | | |
|-------|----------------|------------|------------|-------------------|----------------------|------------|
| | Book balance | Impairment | Book value | Book balance | Impairment provision | Book value |
| Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

(2) Significant held-to-maturity investment at the end

Unit: Yuan

| Bond items | Face value | Nominal interest rate | Effective interest rate | Maturity date |
|------------|------------|-----------------------|-------------------------|---------------|
| Total | 0.00 | — | — | — |

(3) Held-to-maturity investment reclassified in the report period

Other note

16. Long-term receivables*(1) Information for long-term receivables*

Unit: Yuan

| Items | Ending balance | | | Beginning balance | | | Range of discount rate |
|---|----------------|------------------------|------------|-------------------|------------------------|------------|------------------------|
| | Book balance | Provision for bad debt | Book value | Book balance | Provision for bad debt | Book value | |
| Financial leasing | | | | | | | |
| Including: unrealized financing profits | | | | | | | |
| Goods sold on installment | | | | | | | |
| Labor provided on installment | | | | | | | |
| Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | — |

*(2) Long-term accounts receivable derecognized because of transfer of financial assets**(3) Amount of assets or liabilities for which long-term accounts receivable is transferred but continue involve in*

17. Long-term equity investment

Unit: Yuan

| The invested unit | Beginning balance | Additional investment | Negative investment | Profit and loss on investments under equity method | Adjusting other comprehensive income | Change in other equity | Increase/decrease in current period | | | Ending balance | Impairment provision Ending balance |
|--|-------------------|-----------------------|---------------------|--|--------------------------------------|------------------------|-------------------------------------|----------------------|-------|----------------|-------------------------------------|
| | | | | | | | Declaring cash dividends or profit | Impairment provision | Other | | |
| I. Cooperative enterprises | | | | | | | | | | | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | 59,953,468.00 | | | -106,105.67 | | | | | | 59,847,362.33 | |
| Subtotal | 59,953,468.00 | | | -106,105.67 | | | | | | 59,847,362.33 | |
| II. Associated business | | | | | | | | | | | |
| Xinjiang Smart City Engineering Technology | | | | | | | | | | | |
| Research Center | 394,560.23 | | | -206,927.43 | | | | | | 187,632.80 | |
| Beijing Kingbase Information Technology | | | | | | | | | | | |
| Limited Liability Company | 52,423,363.22 | | | 349,467.77 | | | | | | 52,772,830.99 | |
| Shenzhen Apusic Co., Ltd. | | 58,800,000.00 | | 1,078,697.91 | | 553,846.60 | | | | 60,432,544.51 | |
| Subtotal | 52,817,923.45 | 58,800,000.00 | | 1,221,238.25 | | 553,846.60 | | | | 113,393,008.30 | |
| Total | 112,771,391.45 | 58,800,000.00 | | 1,115,132.58 | | 553,846.60 | | | | 173,240,370.63 | |

Other note

18. Investment property

(1) Investment property accounted with cost accounting model

 Applicable Inapplicable

| Items | Houses and buildings | Land use rights | Construction in progress | Total |
|--|-------------------------|--------------------|-----------------------------|-------|
| I. Original book value | | | | |
| 1. Initial balance | | | | |
| 2. Current period increased amount | | | | |
| (1) Outsourcing | | | | |
| (2) Stock/Fixed asset/ construction in progress transferred in | | | | |
| (3) Increase of business merger | | | | |
| 3. Current period decreased amount | | | | |
| (1) Handling | | | | |
| (2) Other transferring out | | | | |
| 4. Ending balance | | | | |
| II. Accumulated depreciation and accumulated amortization | | | | |
| 1. Initial balance | | | | |
| 2. Current period increased amount | | | | |
| (1) Withdrawal or amortization | | | | |
| 3. Current period decrease amount | | | | |
| (1) Handling | | | | |
| (2) Other transferring out | | | | |
| 4. Ending balance | | | | |
| III. Provision for impairment | | | | |
| 1. Initial balance | | | | |
| 2. Current period increased amount | | | | |
| (1) Provision | | | | |
| 3. Current period decreased amount | | | | |
| (1) Handling | | | | |
| (2) Other transferring out | | | | |
| 4. Ending balance | | | | |
| IV. Book value | | | | |
| 1. End of term book value | | | | 0.00 |
| 2. Initial book value | | | | 0.00 |

(2) Investment property accounted at fair value accounting model

□ Applicable √ Inapplicable

Unit: Yuan

| Item | House and building | Land use right | Construction in progress | Total |
|--|-------------------------------|-----------------------|-------------------------------------|--------------|
| I. Initial balance | | | | 0.00 |
| II. Current period variation | | | | |
| Add: outsourcing | | | | |
| Stock/Fixed asset/construction in progress transferred in | | | | |
| Increase of business merger | | | | |
| Less: handling | | | | |
| Other transferring out | | | | |
| Variation of fair value | | | | |
| III. Ending Balance | | | | 0.00 |

*(3) Information for investment property without proper ownership certificate**Unit: Yuan*

| Items | Book value | Reason |
|--------------|-------------------|---------------|
|--------------|-------------------|---------------|

Other note:

19. Fixed assets

(1) Information for fixed assets

Unit: Yuan

| Items | Houses and buildings | Machinery and equipment | Electronic Tools | Transport equipment | Total |
|---|----------------------|-------------------------|------------------|---------------------|----------------|
| I. Original book value | | | | | |
| 1. Beginning balance | 1,166,242.10 | 665,990.00 | 44,587,428.35 | 18,987,717.23 | 65,407,377.68 |
| 2. Increase in 2015 | | | 49,566,089.93 | 2,468,740.12 | 52,034,830.05 |
| (1) Purchase | | | 49,566,089.93 | 2,468,740.12 | 52,034,830.05 |
| (2) Construction in progress transferred in | | | | | |
| (3) Increase of business merger | | | | | |
| 3. Decrease in 2015 | 1,166,242.10 | | 1,195,574.35 | 730,376.00 | 3,092,192.45 |
| (1) Disposal or obsolescence | 1,166,242.10 | | 1,195,574.35 | 730,376.00 | 3,092,192.45 |
| 4. Ending balance | | 665,990.00 | 92,957,943.93 | 20,726,081.35 | 114,350,015.28 |
| II. Accumulated depreciation | | | | | |
| 1. Beginning balance | 314,884.80 | 632,690.50 | 23,580,192.87 | 8,765,291.12 | 33,293,059.29 |
| 2. Increase in 2014 | 27,989.76 | | 6,332,163.23 | 1,740,084.05 | 8,100,237.04 |
| (1) Provision | 27,989.76 | | 6,332,163.23 | 1,740,084.05 | 8,100,237.04 |
| 3. Current period decreased amount | 342,874.56 | | 1,132,994.37 | 641,507.89 | 2,117,376.82 |
| (1) Handling or disposing | 342,874.56 | | 1,132,994.37 | 641,507.89 | 2,117,376.82 |
| 4. Ending balance | | 632,690.50 | 28,779,361.73 | 9,863,867.28 | 39,275,919.51 |
| II. Accumulative depreciation | | | | | |
| 1. Initial balance | | | | | |
| 2. Current period increased amount | | | | | |
| (1) Provision | | | | | |
| 3. Current period decreased amount | | | | | |
| (1) Handling or disposing | | | | | |
| 4. Ending balance | | | | | |
| IV. Book Value | | | | | |
| 1. End of term book value | | 33,299.50 | 64,178,582.20 | 10,862,214.07 | 75,074,095.77 |
| 2. Initial book value | 851,357.30 | 33,299.50 | 21,007,235.48 | 10,222,426.11 | 32,114,318.39 |

*(2) Information for temporarily idle fixed assets**Unit: Yuan*

| Items | Original book value | Accumulated depreciation | Impairment provision | Book value | Note |
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|-------------|
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|-------------|

*(3) Information for fixed assets acquired by financial lease**Unit: Yuan*

| Items | Original book value | Accumulated depreciation | Impairment provision | Book value |
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|
|--------------|----------------------------|---------------------------------|-----------------------------|-------------------|

*(4) Information for fixed assets acquired by operating lease**Unit: Yuan*

| Items | Ending book value |
|--------------|--------------------------|
|--------------|--------------------------|

*(5) Information for fixed assets without proper ownership certificate**Unit: Yuan*

| Items | Items | Reason |
|--------------|--------------|---------------|
|--------------|--------------|---------------|

Other note:

20. Construction in progress*(1) Information for construction in progress**Unit: Yuan*

| Items | Ending balance | | Beginning balance | | | |
|---|-----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | Book balance | Impairment provision | Book value | Book balance | Impairment provision | Book value |
| Cloud computing center base construction project of Taiji Xi'an Information Industrial Park Project | 342,727,651.90 | | 342,727,651.90 | 17,535,085.09 | | 17,535,085.09 |
| | <u>230,000.00</u> | | <u>230,000.00</u> | | | |
| Total | <u>342,957,651.90</u> | | <u>342,957,651.90</u> | <u>17,535,085.09</u> | | <u>17,535,085.09</u> |

*(2) Schedule in major constructions in progress**Unit: Yuan*

| Name of project | Budget | Beginning balance | Increase in 2014 | Transfer to fixed Assets in 2014 | Other decrease in 2014 | Ending book balance | Proportion of project investment in budget (%) | Schedule of project | Accumulated capitalization amount of interest | Including: capitalization amount of interest in 2014 | Capitalization rate of interest in 2014 (%) | Fund source |
|---|-------------------------|----------------------|-----------------------|----------------------------------|------------------------|-----------------------|--|---------------------|---|--|---|-------------|
| | | | | | | | | | | | | |
| Cloud computing center base construction project of Taiji | 764,094,809.57 | 17,535,085.09 | 325,192,566.81 | | | 342,727,651.90 | 44.85% | 44.85% | 6,237,002.35 | 6,237,002.35 | 5.04% | Other |
| Xi'an Information Industrial Park Project | <u>500,000,000.00</u> | | <u>230,000.00</u> | | | <u>230,000.00</u> | <u>0.05%</u> | <u>0.05%</u> | | | | Other |
| Total | <u>1,264,094,809.57</u> | <u>17,535,085.09</u> | <u>325,422,566.81</u> | | | <u>342,957,651.90</u> | <u>—</u> | <u>—</u> | <u>6,237,002.35</u> | <u>6,237,002.35</u> | | <u>—</u> |

*(3) Information for impairment provision of construction in progress in 2015**Unit: Yuan*

| Items | Amount of the current period | Reason for provision |
|-------|------------------------------|----------------------|
| Total | <u>—</u> | <u>—</u> |

Other note:

21. Engineering materials*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

22. Fixed assets liquidation

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|-------------------|----------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

23. Productive biological assets

(1) Productive biological assets accounted with cost accounting model

Applicable Inapplicable

Unit: Yuan

| Item | Planting industry | Animal husbandry | Forestry | Aquaculture | Total |
|------------------------------------|----------------------|---------------------|----------|-------------|-------|
| I. Original book value | | | | | |
| 1. Initial balance | | | | | |
| 2. Current period increased amount | | | | | |
| (1) Outsourcing | | | | | |
| (2) Self-cultivation | | | | | |
| 3. Current period decreased amount | | | | | |
| (1) Handling | | | | | |
| (2) Others | | | | | |
| 4. Ending balance | | | | | |
| II. Accumulative depreciation | | | | | |
| 1. Initial balance | | | | | |
| 2. Current period increased amount | | | | | |
| (1) Withdrawal | | | | | |
| 3. Current period decreased amount | | | | | |
| (1) Handling | | | | | |
| (2) Others | | | | | |
| 4. Ending balance | | | | | |
| III. Provision for Impairment | | | | | |
| 1. Initial balance | | | | | |
| 2. Current period increased amount | | | | | |
| (1) Withdrawal | | | | | |
| 3. Current period decreased amount | | | | | |
| (1) Handling | | | | | |
| (2) Others | | | | | |
| 4. Ending amount | | | | | |
| IV. Book Value | | | | | |
| 1. End of term book value | | | | | |
| 2. Initial book value | | | | | |

(2) Productive biological assets accounted with fair value accounting model

□ Applicable √ Inapplicable

Unit: Yuan

| Item | Planting industry | Animal husbandry | Forestry | Aquaculture | Total |
|--------------------------------|------------------------------|-----------------------------|-----------------|--------------------|--------------|
| I. Initial Balance | | | | | |
| II. Current Period Variation | | | | | |
| Add: outsourcing | | | | | |
| Self-cultivation | | | | | |
| Increase of business merger | | | | | |
| Less: handling | | | | | |
| Other transferring out | | | | | |
| Fair value variation | | | | | |
| III. Ending Balance | | | | | |

Other note:

24. Oil and gas assets

Applicable Inapplicable

Unit: Yuan

| Item | Explored mining area equity | Unexplored mining area equity | Shaft and related facilities | Total |
|------------------------------------|-----------------------------------|-------------------------------------|------------------------------------|-------|
| I. Original book value | | | | |
| 1. Initial balance | | | | |
| 2. Current period increased amount | | | | |
| (1) Outsourcing | | | | |
| (2) Build by its own | | | | |
| 3. Current period decreased amount | | | | |
| (1) Handling | | | | |
| 4. Ending balance | | | | |
| II. Accumulative Depreciation | — | | | |
| 1. Initial balance | — | | | |
| 2. Current period increased amount | — | | | |
| (1) Provision | — | | | |
| 3. Current period decreased amount | — | | | |
| (1) Handling | — | | | |
| 4. Ending balance | — | | | |
| IV. Book Value | | | | |
| 1. End of term book value | | | | |
| 2. Initial book value | | | | |
| (1) Withdrawal | | | | |
| 3. Current period decreased amount | | | | |
| (1) Handling | | | | |
| 4. Ending balance | | | | |
| IV. Book Value | | | | |
| 1. End of term book value | | | | |
| 2. Initial book value | | | | |

Other note:

25. Intangible assets

(1) Information for intangible assets

Unit: Yuan

| Items | Land use right | Patent right | Non-patented technology | Software use right | Software copyright | Total |
|------------------------------------|----------------|--------------|-------------------------|--------------------|--------------------|----------------|
| I. Original Book Value | | | | | | |
| 1. Beginning balance | 475,916,981.00 | | | 14,045,517.19 | 68,482,442.81 | 558,444,941.00 |
| 2. Increase in 2014 | 1,338,209.43 | | | 30,566,190.53 | 18,702,891.37 | 50,607,291.33 |
| (1) Purchase | 1,338,209.43 | | | 30,566,190.53 | | 31,904,399.96 |
| (2) Internal R&D | | | | | 18,702,891.37 | 18,702,891.37 |
| (3) Increase of business merger | | | | | | |
| 3. Current period decreased amount | | | | | | |
| (1) Handling | | | | | | |
| 4. Ending balance | 477,255,190.43 | | | 44,611,707.72 | 87,185,334.18 | 609,052,232.33 |
| II. Accumulative amortization | | | | | | |
| 1. Beginning balance | 16,657,094.34 | | | 3,120,168.54 | 17,511,897.87 | 37,289,160.75 |
| 2. Increase in 2014 | 9,591,941.13 | | | 2,536,394.27 | 16,016,090.60 | 28,144,426.00 |
| (1) Provision | 9,591,941.13 | | | 2,536,394.27 | 16,016,090.60 | 28,144,426.00 |
| 3. Current period decreased amount | | | | | | |
| (1) Handling | | | | | | |
| 4. Ending balance | 26,249,035.47 | | | 5,656,562.81 | 33,527,988.47 | 65,433,586.75 |
| III. Provision for Impairment | | | | | | |
| 1. Initial balance | | | | | | |
| 2. Current period increased amount | | | | | | |
| (1) Provision | | | | | | |
| 3. Current period decreased amount | | | | | | |
| (1) Handling | | | | | | |
| 4. Ending balance | | | | | | |
| IV. Book Value | | | | | | |
| 1. End of term book value | 451,006,154.96 | | | 38,955,144.91 | 53,657,345.71 | 543,618,645.58 |
| 2. Initial book value | 459,259,886.66 | | | 10,925,348.65 | 50,970,544.94 | 521,155,780.25 |

Intangible assets formed by internal R&D at the end of period accounts for 14.31% of the balance of intangible assets.

(2) Information for land use right without proper ownership certificate

Unit: Yuan

| Items | Book value | Reason |
|-------|------------|--------|
|-------|------------|--------|

Other note:

26. Development expenditure

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | | Decrease in 2015 | | Ending balance |
|---|----------------------|-----------------------------------|-------|---------------------------------|---|----------------------|
| | | Internal development expenditures | Other | Recognized as intangible assets | Included into the current profit and loss | |
| Huixin enterprise integrated communication software system V5.0 | | 1,696,190.00 | | | 1,696,190.00 | |
| Digital copyright protection Beijing Engineering Research Center innovative capacity building project | | 1,670,421.61 | | | 1,670,421.61 | |
| 3D printing digital copyright protection system development | | 1,141,665.25 | | | 1,141,665.25 | |
| Independent controllable application supporting platform based on group management structure | | 18,867.92 | | | 18,867.92 | |
| Level-to-level administrated control system development and application demonstration facing group client mobile terminal | | 613,594.29 | | | 613,594.29 | |
| Business risk management and control and compliant integrated cloud service platform | | 30,535,735.17 | | | 30,535,735.17 | |
| Data center comprehensive monitoring software R&D project | | 947,878.75 | | | | 947,878.75 |
| Business information and electronic document switching system | | 2,474,125.22 | | 1,045,103.54 | | 1,429,021.68 |
| Safety management platform R&D based on intelligent analysis | 2,361,279.36 | 1,226,259.39 | | 3,587,538.75 | | |
| New generation data center visualized operation and maintenance management system | | 3,764,481.26 | | 3,764,481.26 | | |
| Helium project | | 620,273.80 | | | | 620,273.80 |
| Mobile Internet management system | 6,633,888.16 | 3,671,879.66 | | 10,305,767.82 | | |
| Administrative approval platform facing multi-system structure | | 1,539,692.12 | | | | 1,539,692.12 |
| GRC management and control system | 20,247,648.10 | 17,303,052.29 | | | | 37,550,700.39 |
| IT administration based on enterprise internal control basic regulations | | -9,640.00 | | | -9,640.00 | |
| Private cloud platform development and industrialization facing business group collaboration application | | 39,189.91 | | | 39,189.91 | |
| GRC group enterprise OA software | | 1,593,976.13 | | | 1,593,976.13 | |
| Total | 29,242,815.62 | 68,847,642.77 | | 18,702,891.37 | 37,300,000.28 | 42,087,566.74 |

Other note:

27. Goodwill

(1) Original book value of goodwill

Unit: Yuan

| Name of investee or the items that form into goodwill | Beginning balance | Increase in 2015 | | Decrease in 2015 | | Ending balance |
|---|-------------------|--------------------------------|-------|------------------|-------|----------------|
| | | Formed by business combination | Other | Disposal | Other | |
| Beijing Smartdot Science and Technology Ltd. | 374,336,612.48 | | | | | 374,336,612.48 |
| Total | 374,336,612.48 | | | | | 374,336,612.48 |

(2) Provision for goodwill impairment

Unit: Yuan

| Name of investee or the items that form into goodwill | Beginning balance | Increase in 2015 | | Decrease in 2015 | | Ending balance |
|---|-------------------|------------------|-------|------------------|-------|----------------|
| | | Provision | Other | Disposal | Other | |
| Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Goodwill impairment test, parameters and recognition method of impairment loss of goodwill:

Other note:

28. Long-term unamortized expenses

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | Amount amortized this period | Other deduction | Ending balance |
|---|-------------------|------------------|------------------------------|-----------------|----------------|
| Rent of the Fourth Division of the General Staff of PLA | 530,680.00 | | 181,947.36 | | 348,732.64 |
| Taiyue Garden renovation costs | 267,922.95 | | 133,961.52 | | 133,961.43 |
| No. 2 Garage house charge for use | 559,500.30 | | 373,000.00 | | 186,500.30 |
| Taiji Building L12 house charge for use | 5,572,222.39 | | 283,333.28 | | 5,288,889.11 |
| Fangxing Building house charge for use | 1,881,205.44 | | 71,665.08 | | 1,809,540.36 |
| Taiji Building renovation costs | 154,781.36 | | 103,187.40 | | 51,593.96 |
| Blue Ocean Building renovation project costs | 122,573.64 | | 58,835.28 | | 63,738.36 |
| Smartdot technology office renovation costs | 1,105,131.10 | | 828,848.52 | | 276,282.58 |
| Total | 10,194,017.18 | | 2,034,778.44 | | 8,159,238.74 |

Other note:

29. Deferred income tax assets/Deferred income tax liabilities

(1) Deferred income tax assets without writing-off

Unit: Yuan

| Items | Ending balance | | Beginning balance | |
|--|--------------------------------|----------------------------|--------------------------------|----------------------------|
| | Lessable temporary differences | Deferred income tax assets | Lessable temporary differences | Deferred income tax assets |
| Provision for asset impairment | 201,327,019.78 | 30,316,078.52 | 159,751,580.12 | 23,624,197.23 |
| Internal transaction unrealized profit | | | | |
| Loss deductible | | | | |
| Provision for inventory depreciation | 4,223,754.39 | 633,563.16 | 4,223,754.39 | 633,563.16 |
| Amortization of intangible assets | 15,466,380.17 | 2,319,957.02 | 9,007,213.79 | 1,239,629.15 |
| Deferred income | 19,627,559.46 | 2,944,133.92 | 15,955,182.19 | 1,595,518.22 |
| Accrued expenses | <u>30,733,163.64</u> | <u>4,679,254.68</u> | <u>24,409,637.68</u> | <u>3,524,779.20</u> |
| Total | <u>271,377,877.44</u> | <u>40,892,987.30</u> | <u>213,347,368.17</u> | <u>30,617,686.96</u> |

(2) Deferred income tax liabilities without writing-off

Unit: Yuan

| Items | Ending balance | | Beginning balance | |
|--|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Taxable temporary differences | Deferred income tax liabilities | Taxable temporary differences | Deferred income tax liabilities |
| Not the same control business merger assets appraisal appreciation | | | | |
| Available-for-sale financial assets fair value variation | | | | |
| Added value of assets evaluation | <u>1,730,151.43</u> | <u>259,522.71</u> | <u>2,768,242.20</u> | <u>276,824.22</u> |
| Total | <u>1,730,151.43</u> | <u>259,522.71</u> | <u>2,768,242.20</u> | <u>276,824.22</u> |

(3) *Net amount of deferred income tax asset and deferred income tax liability after writing-off*

Unit: Yuan

| Items | Deferred income tax assets and liabilities after writing-off at the end of period | Ending balance of deferred income tax assets or liabilities after writing-off | Written-off amount of deferred income tax assets and liabilities at the beginning of period | Beginning balance of deferred income tax assets or liabilities after writing-off |
|---------------------------------|--|--|--|---|
| Deferred income tax assets | | 40,892,987.30 | | 30,617,686.96 |
| Deferred income tax liabilities | | 259,522.71 | | 276,824.22 |

(4) *Details of unrecognized deferred income tax assets*

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--------------------------------|-----------------------------|-----------------------------|
| Lessable temporary differences | 24,773,318.28 | 689,600.38 |
| Lessable loss | <u>33,142,594.76</u> | <u>13,070,654.44</u> |
| Total | <u><u>57,915,913.04</u></u> | <u><u>13,760,254.82</u></u> |

(5) *Lessable loss of unconfirmed deferred income tax assets which will be maturity in the following year:*

Unit: Yuan

| Year | Ending balance | Beginning balance | Note |
|-------------|-----------------------------|-----------------------------|-------------|
| 2015 | | 78,847.45 | |
| 2016 | | | |
| 2017 | 12,629.92 | 12,629.92 | |
| 2018 | 3,291,884.71 | 3,291,884.71 | |
| 2019 | 9,687,292.36 | 9,687,292.36 | |
| 2015 | <u>20,150,787.77</u> | | |
| Total | <u><u>33,142,594.76</u></u> | <u><u>13,070,654.44</u></u> | — |

30. Other non-current assets*Unit: Yuan*

| Item | Ending balance | Beginning balance |
|-------------|---------------------------|------------------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

31. Short-term loans*(1) Classification of short-term loans**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|-----------------|-----------------------|------------------------------|
| Pledge loan | | |
| Mortgage loan | | |
| Guaranteed loan | | |
| Debt of credit | <u>401,812,594.11</u> | <u>35,000,000.00</u> |
| Total | <u>401,812,594.11</u> | <u>35,000,000.00</u> |

Details for classification of short-term loans:

(2) Information for short-term loans overdue

This year, the total amount of short-term loans overdue is 0.00 Yuan, including significant short-term loans overdue:

Unit: Yuan

| Borrowing unit | Ending balance | Lending rate | Overdue time | Overdue rate |
|-----------------------|-----------------------|---------------------|---------------------|---------------------|
| Total | <u>0.00</u> | <u>—</u> | <u>—</u> | <u>—</u> |

35. Accounts payable*(1) Disclosure of accounts payable**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|------------------------------------|-------------------------|-----------------------|
| Goods amount payable (operational) | 1,156,951,814.75 | 513,578,001.23 |
| Service fee payable (operational) | <u>307,149,448.29</u> | <u>242,786,563.97</u> |
| Total | <u>1,464,101,263.04</u> | <u>756,364,565.20</u> |

*(2) Significant accounts payable with age over 1 year**Unit: Yuan*

| Items | Ending balance | Reason of un-repaid or carried forward |
|---|-----------------------|--|
| Beijing Accellence Tech Limited Company | 49,647,709.88 | Unfinished project |
| IBM Leasing Co., Ltd. | 30,057,555.00 | Unfinished project |
| Shandong Qiantai Intelligent Technologies Co., Ltd. | 8,185,995.03 | Unfinished project |
| Beijing Gengtuo Technologies Co., Ltd. | 6,188,000.00 | Unfinished project |
| Beijing Xingfazhan Communication Network Technology Development Co., Ltd. | 5,666,711.60 | Unfinished project |
| Beijing Esafenet Technology Development Co., Ltd. | 5,080,000.00 | Unfinished project |
| Beijing Singolym Technologies Co., Ltd. | 4,375,000.00 | Unfinished project |
| IBM Engineering Technology (Shanghai) Co., Ltd. | 4,258,445.18 | Unfinished project |
| Beijing Tian You Lu Tong Information Engineering Technology Co., Ltd. | <u>4,140,169.15</u> | Unfinished project |
| Total | <u>117,599,585.84</u> | — |

Other note:

36. Advance receipt

(1) Disclosure of advance receipt

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--|-------------------------|-------------------------|
| Contract item fund receivable in advance | <u>1,349,977,416.77</u> | <u>1,087,619,181.99</u> |
| Total | <u>1,349,977,416.77</u> | <u>1,087,619,181.99</u> |

(2) Significant advance collection accounts with age over 1 year

Unit: Yuan

| Items | Ending balance | Reason for not repaying or carrying forward |
|---|-----------------------|---|
| Nanjing Institute of Electronic Technology (The 28th Research Institute of China Electronics Technology Group Corporation) | 27,369,074.69 | Unfinished project |
| Some Construction Engineering Corporation | 18,642,720.27 | Unfinished project |
| Beijing-Guangzhou Railway Passenger Dedicated Line Henan Co., Ltd. | 16,754,424.70 | Unfinished project |
| Shenzhen SED Technology Development Co., Ltd. | 13,921,956.44 | Unfinished project |
| North China Institute of Computing Technology (The 15th Research Institute of China Electronics Technology Group Corporation) | 13,907,286.24 | Unfinished project |
| Tianjin Administrative Bureau of Communication, Transportation and Port | 9,566,001.75 | Unfinished project |
| Nanjing Nari Group Corporation, Information System Integration Branch | 8,930,976.99 | Unfinished project |
| Chinese Academy of Geological Sciences | 7,068,613.66 | Unfinished project |
| Shaanxi Province Maternity and Child Care Center | 6,771,343.60 | Unshipped |
| Ningbo Municipal Public Security Bureau | 5,018,294.45 | Unfinished project |
| Shanghai Senior People's Court | <u>4,245,563.93</u> | Unfinished project |
| Total | <u>132,196,256.72</u> | — |

(3) Information for the unfinished projects which are settled in construction contract

Unit: Yuan

| Items | Amount |
|--|--------|
| Accumulative cost incurred | |
| Accumulative confirmed gross profit | |
| Less: estimated loss | |
| Settlement amount | |
| Construction Contract signed, as-built but unsettled project | |

Other note:

37. Employee pay payable

(1) Disclosure of employee pay payable

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance |
|--|----------------------|-----------------------|-----------------------|----------------------|
| I. Short-term compensation | 13,327,713.47 | 504,771,824.91 | 500,986,997.20 | 17,112,541.18 |
| II. Welfare after demission — defined drawing plan | 247,515.74 | 49,923,646.45 | 49,849,717.40 | 321,444.79 |
| III. Demission welfare | | 843,445.86 | 843,445.86 | |
| IV. Other welfare which is due in 1 year | _____ | _____ | _____ | _____ |
| Total | <u>13,575,229.21</u> | <u>555,538,917.22</u> | <u>551,680,160.46</u> | <u>17,433,985.97</u> |

*(2) Disclosure of short-term compensation**Unit: Yuan*

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance |
|---|-----------------------------|------------------------------|------------------------------|-----------------------------|
| 1. Salary, bonus, allowance and subsidy | 12,844,150.41 | 440,945,432.88 | 437,213,182.11 | 16,576,401.18 |
| 2. Welfare expense of employee | -27,800.00 | 1,958,127.97 | 1,930,327.97 | |
| 3. Social insurance charges | 36,731.03 | 28,170,033.35 | 28,149,407.59 | 57,356.79 |
| Including: Medical insurance premiums | 25,253.91 | 25,415,869.53 | 25,395,734.42 | 45,389.02 |
| Industrial injury insurance premiums | -4,407.04 | 900,405.73 | 898,836.57 | -2,837.88 |
| Birth insurance premiums | 5,940.32 | 1,843,939.55 | 1,845,018.06 | 4,861.81 |
| Other | 9,943.84 | 9,818.54 | 9,818.54 | 9,943.84 |
| 4. Housing fund | 17,347.12 | 27,224,191.92 | 27,211,432.50 | 30,106.54 |
| 5. Labor union and educational expenditures | 457,284.91 | 6,474,038.79 | 6,482,647.03 | 448,676.67 |
| 6. Short-term compensated absence | | | | |
| 7. Short-term profit sharing plan | | | | |
| Total | <u>13,327,713.47</u> | <u>504,771,824.91</u> | <u>500,986,997.20</u> | <u>17,112,541.18</u> |

*(3) Disclosure of defined drawing plan**Unit: Yuan*

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance |
|-----------------------------------|--------------------------|-----------------------------|-----------------------------|--------------------------|
| 1. Basic endowment insurance | 214,715.91 | 47,328,563.58 | 47,274,405.10 | 268,874.39 |
| 2. Unemployment insurance expense | 32,799.83 | 2,595,082.87 | 2,575,312.30 | 52,570.40 |
| 3. Enterprise annuity payment | | | | |
| Total | <u>247,515.74</u> | <u>49,923,646.45</u> | <u>49,849,717.40</u> | <u>321,444.79</u> |

Other note:

The Group's staffs have basic pension and unemployment insurance organized and implemented by the local Labor and Social Security Department. The Group hands in insurance premium to the local Social Security Administration Department on a monthly basis in the cardinal sum and proportion of locally regulated social basic pension and unemployment insurance payment. After its staff have retired or lost their jobs, local Labor and Social Security Department is responsible for paying social basic pension to retired staff or paying unemployment compensation to unemployed staff. The Group will calculate the payable amount according to above social security regulations and confirm as liabilities during the accounting period that its staff provide services, and include into current profits and losses or relevant asset cost.

38. Tax payable

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--|-----------------------|--------------------------|
| VAT | 12,760,441.58 | 43,523,651.30 |
| Consumer tax | | |
| Business tax | 25,978,493.47 | 26,382,013.44 |
| Corporate income tax | 42,093,267.56 | 12,082,991.26 |
| Individual income tax | 811,008.75 | 566,619.57 |
| Urban maintenance and construction tax | 4,431,283.34 | 6,328,043.01 |
| Education surcharge | 2,614,600.42 | 3,472,010.48 |
| Local education surcharge | 781,171.41 | 1,372,757.35 |
| Other | 240.48 | -4,305.95 |
| Total | 89,470,507.01 | 93,723,780.46 |

Other note:

39. Accrual interest payable

Unit: Yuan

| Items | Ending balance | Beginning balance |
|---|----------------|-------------------|
| Long-term loan interests whose interest is paid on installment and the principal is returned when due | | |
| Corporate bond interest | | |
| Short-term loan payable interest | | |
| Preferred shares divided into financial liabilities/ sustainable liability interest | | |
| Others | | |
| Total | 0.00 | 0.00 |

Information for significant interest outstanding:

Unit: Yuan

| Borrowing unit | Amount outstanding | Reason |
|----------------|--------------------|--------|
| Total | 0.00 | — |

Other note:

40. Dividends payable

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--|----------------|-------------------|
| Common stock dividends | | 2,097,812.00 |
| Preferred shares divided into equity instrument/ sustainable liability interest | | |
| Other | | |
| Total | 0.00 | 2,097,812.00 |

41. Other accounts payable*(1) Other accounts payable disclosed by nature**Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--|------------------------------|-----------------------------|
| Accounts receivable and accounts payable | 43,073,319.29 | 40,904,503.33 |
| Cash deposit payable | 30,663,773.78 | 26,751,931.55 |
| Other | <u>46,432,373.37</u> | <u>1,833,188.38</u> |
| Total | <u>120,169,466.44</u> | <u>69,489,623.26</u> |

*(2) Other significant accounts payable with age over one year**Unit: Yuan*

| Items | Ending balance | Reason for nonpayment or carryforward |
|--|----------------------------|--|
| Cisco Systems. Inc | 3,184,217.05 | Cash deposit |
| Chongqing Water Conservancy Information Center | 1,279,300.00 | Cash deposit |
| Beijing Dapengfei science and Technology Development Co., Ltd. | 900,000.00 | Cash deposit |
| Beijing Acer Tujin Consulting Co. Ltd. | <u>811,566.36</u> | Cash deposit |
| Total | <u>6,175,083.41</u> | — |

Other note:

42. Non-current liabilities due within one year*Unit: Yuan*

| Items | Ending balance | Beginning balance |
|--------------|-----------------------|--------------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

43. Non-current liabilities due within one year

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--|----------------|-------------------|
| Long-term loan which is due in 1 year | | |
| Bonds payable which is due in 1 year | | |
| Long-term payable which is due in 1 year | | |
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

44. Other current liabilities

Unit: Yuan

| Items | Ending balance | Beginning balance |
|---------------------------|----------------|-------------------|
| Short-term bonds payables | <u>0.00</u> | <u>0.00</u> |
| Total | <u>0.00</u> | <u>0.00</u> |

Increase/decrease of short-term bonds payables:

Unit: Yuan

| Bond name | Face value | Issuing date | Term of bond | Amount issued | Beginning balance | Amount issued in 2015 | Accrued interest as per the face value | Amortization of bond's premium price | Amount paid in 2015 | Other | Ending balance |
|-----------|------------|--------------|--------------|---------------|-------------------|-----------------------|--|--------------------------------------|---------------------|-------------|----------------|
| Total | <u>—</u> | <u>—</u> | <u>—</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

Other note:

45. Long-term loan

(1) Classification of long-term loan

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-----------------|----------------|-------------------|
| Pledge loan | | |
| Mortgage loan | | |
| Guaranteed loan | | |
| Fiduciary loan | | |
| Total | <u>0.00</u> | <u>0.00</u> |

Details of classification of long-term loan:

Other note, including the range of interest rate:

46. Bonds payable

(1) Bonds payables

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

(2) Increase and decrease in bonds payables (excluding preferred shares classified as financial liabilities, perpetual capital securities and other financial instruments)

Unit: Yuan

| Bond name | Face value | Issuing date | Bond period | Amount issued | Beginning balance | Amount issued in 2015 | Accrued interest as per the face value | Amortization of bond's premium price | Amount paid in 2015 | Other | Ending balance |
|-----------|------------|--------------|-------------|---------------|-------------------|-----------------------|--|--------------------------------------|---------------------|-------------|----------------|
| Total | <u>—</u> | <u>—</u> | <u>—</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

(3) Specify the conditions for convertible bonds and conversion time.

(4) Specify other financial instrument classified as financial liabilities

Basic information for other financial instruments, including outstanding preferred shares at the end, perpetual capital securities

Chang in financial instruments, including outstanding preferred shares at the end, perpetual capital securities

Unit: Yuan

| Outstanding financial instrument | Beginning | | Increase in 2015 | | Decrease in 2015 | | Ending | |
|----------------------------------|-----------|------------|------------------|------------|------------------|------------|--------|------------|
| | Number | Book value | Number | Book value | Number | Book value | Number | Book value |
| Total | | | | | | | | |

Details of the base of financial instruments classified as financial liabilities

Other note:

47. Long-term payables

(1) Sorted by nature of funds

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
|-------|----------------|-------------------|

Other note:

48. Long-term employee pay payable

(1) Long-term employee pay payable table

Unit: Yuan

| Items | Ending balance | Beginning balance |
|---|----------------|-------------------|
| I. Welfare after dismissal-set benefit plan liability | | |
| II. Dismissal welfare | | |
| III. Other long-term welfare | | |
| Total | 0.00 | 0.00 |

(2) Change in defined benefit plan

Current value of obligation of defined benefit plan:

| | <i>Unit: Yuan</i> | |
|---|-------------------|------------------|
| Items | Year 2015 | Year 2014 |
| I. Beginning balance | 0.00 | 0.00 |
| II. Include in set benefit cost of current profits and losses | | |
| 1. Current period service cost | | |
| 2. Past service cost | | |
| 3. Settle profits (loss is expressed in “-” | | |
| 4. Interest net amount | | |
| III. Set cost of earnings which is included in other comprehensive income | | |
| 1. Accurately calculate profits (loss is expressed in “-” | | |
| IV. Other Variations | | |
| 1. Consideration paid during settlement | | |
| 2. Already paid welfare | | |
| V. Ending balance | 0.00 | 0.00 |

Plan assets:

| | <i>Unit: Yuan</i> | |
|--|-------------------|------------------|
| Items | Year 2015 | Year 2014 |
| I. Beginning balance | 0.00 | 0.00 |
| II. Set cost of earnings included in current profits and losses | | |
| 1. Interest net amount | | |
| III. Set cost of earnings which is included in other comprehensive income | | |
| 1. Planned return on asset (except included in interest net amount) | | |
| 2. Variation of asset upper limit (except included in interest net amount) | | |
| IV. Other Variations | | |
| V. Ending balance | 0.00 | 0.00 |

Net liabilities (net assets) of defined benefit plan

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|---|-----------|-----------|
| I. Beginning balance | 0.00 | 0.00 |
| II. Set cost of earnings included in current profits and losses | | |
| III. Set cost of earnings which is included in other comprehensive income | | |
| IV. Other Variations | | |
| V. Ending balance | 0.00 | 0.00 |

Specify the influence of contents of defined benefit plan and its relevant risk on future cash flow, time and uncertainty:

Specify significant actuarial assumption of defined benefit plan and the result of sensitivity analysis:

Other note:

49. Account payable special funds

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance | Reason of Formation |
|-------|-------------------|------------------|------------------|----------------|---------------------|
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>—</u> |

Other note:

50. Estimated liabilities

Unit: Yuan

| Items | Ending balance | Beginning balance | Reason of Formation |
|---------------------------------|----------------|-------------------|---------------------|
| Guarantee for external entity | | | |
| Pending litigation | | | |
| Product quality assurance | | | |
| Reorganization obligation | | | |
| To-be-executed onerous contract | | | |
| Other | _____ | _____ | _____ |
| Total | <u>0.00</u> | <u>0.00</u> | <u>—</u> |

Other note, including details for relevant important assumption and estimation of significant estimated liabilities:

51. Deferred income

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance | Reason of Formation |
|-------------------|-------------------|------------------|------------------|----------------|---------------------|
| Government grants | 24,794,199.12 | 54,561,336.00 | 24,086,474.04 | 55,269,061.08 | |
| Total | 24,794,199.12 | 54,561,336.00 | 24,086,474.04 | 55,269,061.08 | — |

Projects involving in government grants:

Unit: Yuan

| Project of liabilities | Beginning balance | Newly increased amount of subsidy in this period | Amount included in non-business income in the period | Other change | Ending balance | Related to assets/income |
|---|-------------------|--|--|--------------|----------------|--------------------------|
| Digital copyright key technology R&D and management service platform construction facing socialized creation | 241,299.78 | | | | 241,299.78 | Related to income |
| Level-to-level administrated control system development and application demonstration (4G project) facing group client mobile terminal | 393,848.05 | | 91,870.21 | | 301,977.84 | Related to assets |
| 3D printing digital copyright protection system development | | 1,106,600.00 | | | 1,106,600.00 | Related to income |
| Software industry cluster development demonstration project (including safe and unified enterprise-level dynamic application integration platform | 500,000.00 | | | | 500,000.00 | Related to income |
| GRC software and service engineering Beijing Engineering Laboratory Innovation Capacity Building Project | 7,982,317.49 | | 1,723,500.00 | | 6,258,817.49 | Related to assets |
| 3D printing digital copyright protection system development | | 490,000.00 | | | 490,000.00 | Related to assets |
| Intelligent service and comprehensive analysis platform R&D and demonstration facing demand of news media | | 684,736.00 | | | 684,736.00 | Related to income |
| Copyright circulation comprehensive service system and application demonstration facing digital content industry | | 790,000.00 | | | 790,000.00 | Related to income |
| Digital works rights protection service platform | 33,048.70 | | | | 33,048.70 | Related to income |
| E-Government Intranet important information system protection technology and product research | | 2,710,000.00 | 2,710,000.00 | | | Related to income |
| Early warning system which safeguards data center safety and economic operation | 1,000,000.00 | | 1,000,000.00 | | | Related to income |
| Beijing E-Government public cloud computing service platform | | 10,000,000.00 | | | 10,000,000.00 | Related to assets |
| Beijing-Tianjin-Hebei Region emergency public service information technology system research | | 500,000.00 | 230,650.56 | | 269,349.44 | Related to income |
| Cloud security management platform industrialization | 24,376.00 | | 24,376.00 | | | Related to income |
| Education cloud green and safe service guarantee | 3,287,854.80 | 450,000.00 | 1,926,939.06 | | 1,810,915.74 | Related to income |
| Administrative information system key technology and application demonstration based on cloud computing | | 150,000.00 | 150,000.00 | | | Related to income |
| Intelligent Yan'an intelligent application supporting platform key technology research application demonstration | | 6,800,000.00 | 303,764.95 | | 6,496,235.05 | Related to income |

| Project of liabilities | Beginning balance | Newly increased amount of subsidy in this period | Amount included in non-business income in the period | Other change | Ending balance | Related to assets/income |
|---|----------------------|--|--|--------------|----------------------|--------------------------|
| Taiji Shares city emergency field Internet of things application supporting platform R&D and industrialization program | 54.50 | | 54.50 | | | Related to income |
| CETC industrial development input program | | 4,000,000.00 | 742,202.37 | | 3,257,797.63 | Related to income |
| National Science and Technology Plan coordinated management platform and key technology research demonstration | 8,954,005.40 | 1,800,000.00 | 10,754,005.40 | | | Related to income |
| 2014 Beijing high-tech achievements transformation program | 700,763.28 | | 405,494.19 | | 295,269.09 | Related to income |
| Safe and reliable information system technology supporting public service platform | | 4,000,000.00 | 4,000,000.00 | | | Related to income |
| General aviation fund program | 716,418.16 | | 23,616.80 | | 692,801.36 | Related to income |
| Private cloud platform development and industrialization facing group enterprise collaborative application | 850,000.00 | | | | 850,000.00 | Related to income |
| Enterprise risk management and control and compliant integrated cloud service platform | | 10,000,000.00 | | | 10,000,000.00 | Related to assets |
| Copyright monitoring public service platform | 110,212.96 | | | | 110,212.96 | Related to income |
| Haidian District Finance Bureau (Beijing) digital copyright protection Beijing Engineering Research Center innovation capacity building program | | 11,080,000.00 | | | 11,080,000.00 | Related to assets |
| Total | <u>24,794,199.12</u> | <u>54,561,336.00</u> | <u>24,086,474.04</u> | | <u>55,269,061.08</u> | — |

Other note:

Government subsidy programs which form assets are confirmed as asset-related government subsidies; the rest are confirmed as earnings-related government subsidies.

- (1) According to Smartdot Technologies and Beijing Municipal Science and Technology Commission signed Beijing Municipal Science and Technology Plan Topic Assignment, Smartdot Technologies undertakes the scientific research task of “3D printing digital copyright protection system development” program, and has received scientific research funds of RMB1,596,600 in current period.
- (2) According to Smartdoer and Xinhua News Agency signed National Sci-Tech Support Plan Topic Assignment Agreement, Smartdoer undertakes the scientific research task of “Copyright circulation comprehensive service system and application demonstration facing digital content industry”, and has received scientific research funds of RMB684,700 in current period.
- (3) According to Smartdoer and Xinhua News Agency signed National Sci-Tech Support Plan Topic Assignment Agreement, Smartdoer undertakes the scientific research task of “Copyright circulation comprehensive service system and application demonstration facing digital content industry”, and has received scientific research funds of RMB790,000 in current period.
- (4) According to Taiji Information and Data Communication Science And Technology Research Institute signed National Sci-Tech Support Plan Sub-task Contract, it has received scientific research funds of RMB2.71 million for “E-Government Intranet Important Information System Protection Technology and Product Research” in current period.

- (5) According to Beijing Municipal Commission of Development and Reform forwarded National Development and Reform Commission's Notice on 2014 Cloud Computing Engineering Project, it has received scientific research funds of RMB10 million for "Beijing Municipal E-Government Public Cloud Computing Service Platform" in current period.
- (6) According to the company and Beijing Municipal Science and Technology Commission signed Beijing Municipal Information-based Government Administration Engineering and Technological Research Center 2015 Sci-Tech Innovation Base Cultivation and Development Special Program, the company undertakes the scientific research task of "Beijing-Tianjin-Hebei Region Emergency Public Service Information Technology System Research" program, and has received scientific research funds of RMB500,000 in current period.
- (7) According to Ministry of Science and Technology's Notice on Issuing 2013 National Sci-Tech Support Plan Program Topic Budget and Yearly Appropriation, it has received scientific research funds of RMB450,000 for "Education Cloud Green and Safe Service Guarantee" in current period.
- (8) According to the company and State Information Center signed "Administrative information system key technology and application demonstration based on cloud computing" program, the company undertakes the scientific research tasks of "Administrative Information System Key Technology and Application Demonstration User Authentication and Access Control Subsystem Development Based on Cloud Computing", and has received scientific research funds of RMB150,000 in current period.
- (9) According to Ministry of Science and Technology's Notice on Initiation of Major Project of National 863 Plan Information Technology Field smart City (Phase 2), it has received scientific research funds of RMB6.8 million for "Intelligent Yan'an intelligent application supporting platform key technology research application demonstration" in current period.
- (10) According to the company and the Electronic Development Fund Management Office of Ministry of Industry and Information Technology signed Electronic Information Industry Development Fund Project Contract, the company undertakes the scientific research task of "CETC Industrial Development Input Project", and has received scientific research funds of RMB4 million in current period.
- (11) According to Ministry of Science and Technology's Notice on National Sci-Tech Support Plan Program Topic Budget and Yearly Appropriation, it has received scientific research funds of RMB1.8 million for "National Science and Technology Plan coordinated management platform and key technology research demonstration" program in current period.

- (12) According to the company and CETC Industrial Development Input Project Contract, the company undertakes the scientific research task of “Safe and Reliable Information System Technical Support Public Service Platform” program, and has received scientific research funds of RMB4 million in current period.
- (13) According to Smartdot Technologies and Beijing Municipal Commission of Economy and Information Technology signed Zhongguancun Modern Service Industry Special Fund Appropriation Project Contract, Smartdot Technologies undertakes the scientific research task of “Enterprise Risk Management and Control and Complaint Integrated Cloud Service Platform” Program, and has received scientific research funds of RMB10 million.
- (14) According to Beijing Municipal Commission of Development and Reform’s Reply on Beijing Municipal Engineering Research Center Innovation Capacity Building Program Subsidy Fund of Beijing Boyun Haoya Science and Technology Development Co., Ltd. digital copyright protection, it has received scientific research funds of RMB11.08 million for “Digital Copyright Protection Beijing Municipal Engineering Research Center Innovation Capacity Building Program” in current period.

52. Other non-current liabilities

Unit: Yuan

| Items | Ending balance | Beginning balance |
|-------|----------------|-------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

53. Paid-in capital

Unit: Yuan

| | Beginning balance | New issue of shares | Increase/Decrease in 2015 (+, -) | | | Subtotal | Ending balance |
|------------------|-----------------------|---------------------|----------------------------------|---------------------------------|---------|-----------------------|-----------------------|
| | | | Dividend | Share transferred from reserves | Other | | |
| The sum of share | <u>274,411,744.00</u> | <u>2,653,074.00</u> | <u></u> | <u>138,532,409.00</u> | <u></u> | <u>141,185,483.00</u> | <u>415,597,227.00</u> |

Other note:

54. Other equity instrument

(1) Basic information for other financial instruments, including outstanding preferred shares at the end, perpetual capital securities

(2) Chang in financial instruments, including outstanding preferred shares at the end, perpetual capital securities

Unit: Yuan

| Outstanding financial instruments | The beginning of the period | | Increase in 2015 | | Decrease in 2015 | | The end of the period | |
|-----------------------------------|-----------------------------|------------|------------------|------------|------------------|------------|-----------------------|------------|
| | Number | Book value | Number | Book value | Number | Book value | Number | Book value |
| Total | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |

Details for increase/decrease of other equity instrument, the reason and the base of relevant accounting treatment:

Other note:

55. Capital reserves

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance |
|----------------------------------|-------------------|------------------|------------------|----------------|
| Capital premium (equity premium) | 1,044,692,408.61 | 41,387,954.40 | 138,532,409.00 | 947,547,954.01 |
| Other capital reserves | 2,714,695.17 | 11,705,163.60 | | 14,419,858.77 |
| Total | 1,047,407,103.78 | 53,093,118.00 | 138,532,409.00 | 961,967,812.78 |

Other note, including information for increase/decrease in 2015 and the reason of change:

56. Treasury stock

Unit: Yuan

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance |
|---|-------------------|------------------|------------------|----------------|
| Treasury stocks related to restricted stock repurchase obligation | | 44,041,028.40 | | 44,041,028.40 |
| Total | 0.00 | 44,041,028.40 | 0.00 | 44,041,028.40 |

Other note, including increase/decrease in 2015 and the reason:

During the report period, the Company offered 2,653,074.00 shares of restricted stock at 16.60 yuan per share to 153 incentive receivers. The Company therefore has provided treasury stocks of 44,041,028.40 yuan for the possible repurchase obligation of 2,653,074.00 shares of restricted stock at 16.60 yuan per share and other account payable of 44,041,028.40 yuan.

57. Other comprehensive income

Unit: Yuan

| Items | Beginning balance | Amount before income tax in 2015 | Subtract: the amount which is included in other comprehensive income in 2014 and transferred in profit and loss in 2015 | Year 2015 | | Amount attributable to minority shareholder after tax | Ending balance |
|--|-------------------|----------------------------------|---|------------------------------|---|---|----------------|
| | | | | Subtract: Income tax expense | Amount attributable to the parent after tax | | |
| I. Other comprehensive income which cannot be reclassified in profit and loss in future periods | | | | | 0.00 | | |
| Include: change in net liabilities and net assets generated from recalculating defined benefit plan | | | | | 0.00 | | |
| The share of the invested unit in other comprehensive income which cannot be reclassified in profit and loss under equity method | | | | | 0.00 | | |
| II. Other comprehensive income which is reclassified in profit and loss in future periods | | | | | 0.00 | | |
| Include: The share of the invested unit in other comprehensive income which can be reclassified in profit and loss under equity method | | | | | 0.00 | | |
| Profit and loss generated from the change in fair value of available-for-sale financial assets | | | | | 0.00 | | |
| Profit and loss generated from reclassifying held-to-maturity investment as available-for-sale financial assets | | | | | 0.00 | | |
| Effective portion of profit and loss generated from cash flow hedge | | | | | 0.00 | | |
| Foreign currency financial statement translation balance | | | | | 0.00 | | |
| Total amount of other comprehensive income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

58. Special reserves*Unit: Yuan*

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance |
|---------------------------|--------------------------|-------------------------|-------------------------|-----------------------|
| Safety production expense | _____ | _____ | _____ | _____ |
| Total | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |

Other note, including increase/decrease in 2015 and the reason:

59. Surplus reserves*Unit: Yuan*

| Items | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance |
|---------------------------|--------------------------|-------------------------|-------------------------|-----------------------|
| Statutory surplus | 69,474,146.20 | 15,068,132.27 | | 84,542,278.47 |
| Free surplus reserves | | | | |
| Reserve fund | | | | |
| Enterprise expansion fund | | | | |
| Others | _____ | _____ | _____ | _____ |
| Total | <u>69,474,146.20</u> | <u>15,068,132.27</u> | <u>0.00</u> | <u>84,542,278.47</u> |

Information for surplus reserves, including increase/decrease in 2015 and the reason:

In 2015, the Company's statutory surplus reserve is 15,068,132.27 Yuan based on 10% of retained profits (in 2014, it is 12,587,209.90 Yuan base on 10% of retained profits).

60. Undistributed profits*Unit: Yuan*

| Items | In 2015 | In 2014 |
|--|----------------|----------------|
| Undistributed profit at the end of previous period before adjustment | 606,596,048.30 | 478,350,101.66 |
| Undistributed Profit after Adjustment at the beginning of This Period (increase +, decrease -) | 0.00 | 0.00 |
| Undistributed Profit after Adjustment at the beginning of This Period | 606,596,048.30 | 478,350,101.66 |
| Add: Net profit attributable to the owners of the company for the period | 201,500,262.30 | 195,715,505.34 |
| Less: Statutory surplus reserve | 15,068,132.27 | 12,587,209.90 |
| Provide free surplus reserves | | |
| Provide general risk preparation | | |
| Dividend payable on common stock | 60,954,259.92 | 54,882,348.80 |
| Ordinary stock dividend transferred to capital stock | | |
| Undistributed Profit at the end of period | 732,073,918.41 | 606,596,048.30 |

Details for adjusting beginning undistributed profit:

- 1). Because retroactive adjustment is carried out according to ASBE and relevant new regulations, the affected beginning undistributed profit is 0.00 Yuan.
- 2). Because of changes in accounting policies, the affected beginning undistributed profit is 0.00 Yuan.
- 3). Because of correction of significant accounting errors, the affected beginning undistributed profit is 0.00 Yuan.
- 4). Because of change in range of business combination under common control, the affected beginning undistributed profit is 0.00 Yuan.
- 5). Because of other adjustment, total affected beginning undistributed profit is 0.00 Yuan.

61. Operating income and cost*Unit: Yuan*

| Items | Year 2015 | | Year 2014 | |
|----------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Income | Cost | Income | cost |
| Main business | 4,828,524,464.73 | 4,014,689,740.69 | 4,254,925,263.97 | 3,551,690,600.83 |
| Other business | <u>962,705.80</u> | <u>0.00</u> | <u>696,883.31</u> | <u>645,412.87</u> |
| Total | <u><u>4,829,487,170.53</u></u> | <u><u>4,014,689,740.69</u></u> | <u><u>4,255,622,147.28</u></u> | <u><u>3,552,336,013.70</u></u> |

62. Business tax and surcharges*Unit: Yuan*

| Items | Year 2015 | Year 2014 |
|--|-----------------------------|-----------------------------|
| Consumption duty | | |
| Business tax | 16,801,590.11 | 13,136,654.30 |
| Urban maintenance and construction tax | 6,666,845.84 | 6,641,721.17 |
| Education surcharge | 2,856,932.48 | 2,846,390.42 |
| Resource tax | | |
| Local education surcharge | 1,904,621.62 | 1,897,827.78 |
| Other | <u>4,242.87</u> | <u>3,775.98</u> |
| Total | <u>28,234,232.92</u> | <u>24,526,369.65</u> |

Other note:

63. Selling expenses*Unit: Yuan*

| Items | Year 2015 | Year 2014 |
|---------------------------|-----------------------------|-----------------------------|
| Travel expense | 16,919,113.75 | 19,873,009.68 |
| Wages | 12,298,423.11 | 11,841,236.52 |
| Office expenses | 11,379,742.38 | 13,087,259.86 |
| Transportation | 6,845,384.78 | 6,224,479.65 |
| Business entertainment | 5,450,255.01 | 6,137,064.32 |
| Communication expense | 2,717,951.91 | 2,039,708.82 |
| Conference expense | 1,724,489.79 | 895,656.34 |
| Traffic expense | 742,627.07 | 947,171.26 |
| Social insurance expenses | 685,660.11 | 1,441,451.70 |
| Biding charge | 477,238.52 | 679,499.50 |
| Other | <u>4,656,720.81</u> | <u>4,651,771.14</u> |
| Total | <u>63,897,607.24</u> | <u>67,818,308.79</u> |

Other note:

64. Administrative expense

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|--------------------------------------|------------------------------|------------------------------|
| Wages | 252,266,358.25 | 211,442,449.26 |
| Technology development expense | 64,332,822.12 | 50,806,182.07 |
| Housing fund | 51,164,870.04 | 41,301,473.61 |
| Development cost | 29,168,795.49 | 22,885,933.72 |
| Amortization expense | 16,819,527.50 | 13,949,986.11 |
| Office expenses | 14,160,796.12 | 14,995,711.93 |
| Rental fee | 12,882,659.19 | 4,720,691.91 |
| Administrative fee of parent company | 10,008,732.40 | 13,381,701.40 |
| Miscellaneous expense | 6,420,581.93 | 5,515,387.76 |
| Depreciation cost | 6,414,005.27 | 6,375,099.72 |
| Other | <u>28,817,438.60</u> | <u>19,756,934.94</u> |
| Total | <u><u>492,456,586.91</u></u> | <u><u>405,131,552.43</u></u> |

Other note:

65. Financial cost

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|-----------------------|----------------------------|---------------------------|
| Interest expense | 10,016,816.69 | 6,119,485.64 |
| Less: interest income | -5,288,616.44 | -9,258,142.76 |
| Handling charge | | |
| Other | <u>3,067,437.15</u> | <u>2,179,086.65</u> |
| Total | <u><u>7,795,637.40</u></u> | <u><u>-959,570.47</u></u> |

Other note:

66. Losses from asset impairment

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|--|----------------------|----------------------|
| I. Losses from bad debt | 41,695,406.05 | 29,015,200.20 |
| II. Losses from inventory depreciation | | -645,412.87 |
| III. Available-for-sale Financial Assets Impairment Loss | | |
| IV. Held-to-maturity Investments Impairment Loss | | |
| V. Long-term equity Investments Impairment Loss | | |
| VI. Investment Real Estate Impairment Loss | | |
| VII. Fixed Assets Impairment Loss | | |
| VIII. Engineering Material Impairment Loss | | |
| IX. Construction in Progress Impairment Loss | | |
| X. Productive Biological Assets Impairment Loss | | |
| XI. Oil-and-gas Assets Impairment Loss | | |
| XII. Intangible Assets Impairment Loss | | |
| XIII. Goodwill Impairment Loss | | |
| XIV. Other | | |
| | <u>41,695,406.05</u> | <u>28,369,787.33</u> |
| Total | <u>41,695,406.05</u> | <u>28,369,787.33</u> |

Other note:

67. Earnings from the change in fair value

Unit: Yuan

| Source of earnings from the changed in fair value | Year 2015 | Year 2014 |
|--|-------------|-------------|
| Financial assets measured with fair value and their variations are included in current profits and losses Including: derivative financial instrument generated fair value variation earnings | | |
| Financial liabilities measured with fair value and their variations are included in current profits and losses | | |
| Investment real estate measured with fair value | | |
| | <u>0.00</u> | <u>0.00</u> |
| Total | <u>0.00</u> | <u>0.00</u> |

Other note:

68. Income from investment

| | <i>Unit: Yuan</i> | |
|---|----------------------------|----------------------------|
| Items | Year 2015 | Year 2014 |
| Income from long-term equity investment calculated with equity method | 1,115,132.58 | 1,993,544.51 |
| Investment earnings generated from disposing long-term equity investment | | |
| Ending fair value of assets and liabilities accounted at fair value | | |
| Handling is measured by fair value and its variation is included in financial asset net increase amount of current profits and losses | | |
| Investment earnings of held-to-maturity investment in holding period | | |
| Income from investment in held-for-sale financial assets during holding period | 134,613.67 | 103,247.68 |
| Investment earnings obtained from disposing available-for-sale financial assets | 229,000.00 | |
| After the right of control is lost, the residual equity generated profits are remeasured with fair value | _____ | _____ |
| Total | <u><u>1,478,746.25</u></u> | <u><u>2,096,792.19</u></u> |

Other note:

69. Non-operating income

| Items | <i>Unit: Yuan</i> | | |
|---|-----------------------------|-----------------------------|---|
| | Year 2015 | Year 2014 | Amount included in the current non-recurring profit and loss |
| Total gains on disposal of non-current assets | 2,191,173.84 | 9,281.40 | 2,191,173.84 |
| Including: gain on disposal of fixed assets | 2,191,173.84 | 9,281.40 | 2,191,173.84 |
| Intangible assets disposal earnings | | | |
| Earnings from debt restructuring | | | |
| Non-monetary assets exchange earnings | | | |
| Donations received | | | |
| Government subsidies | 46,526,566.54 | 38,202,574.56 | 33,587,136.47 |
| Other | <u>8,140,558.00</u> | <u>15,434.00</u> | <u>8,140,558.00</u> |
| Total | <u><u>56,858,298.38</u></u> | <u><u>38,227,289.96</u></u> | <u><u>43,918,868.31</u></u> |

Breakdown of government subsidies:

Unit: Yuan

| Subsidy items | Provided by | Provision reason | Nature | Whether the subsidy influences the profit and loss of that year or not | Whether it's special subsidy or not | Year 2015 | Year 2014 | Related to asset/ Related to income |
|--|-------------|------------------|--------|--|-------------------------------------|---------------|---------------|--|
| Drawback for software product | | | | | | 12,939,430.07 | 12,166,095.93 | Related to income |
| IT administration system development based on enterprise internal control basic regulations | | | | | | | 720,000.00 | Related to income |
| Level-to-level administrated control system development and application demonstration facing group client mobile terminal (4G project) | | | | | | 91,870.21 | 1,828,313.09 | Related to income |
| Received subsidy from Ministry of Industry and Information Technology of the People's Republic of China-directly included in | | | | | | | 30,000.00 | Related to income |
| 2015 Zhongguancun International Development Special Fund Subsidy-directly included in | | | | | | 500,000.00 | | Related to income |
| Subsidy from Dongsheng Town People's Government, Haidian District, Beijing-directly included in | | | | | | 30,000.00 | | Related to income |
| GRC software and service engineering Beijing Engineering Laboratory Innovation Capacity Building Project | | | | | | 1,723,500.00 | 987,682.51 | Related to income |
| Income tax refund income-directly included in | | | | | | 1,196,729.43 | | Related to income |
| Deferred income transferred in subsidy | | | | | | | 1,530,128.13 | Related to income |
| General aviation fund program subsidy | | | | | | 23,616.80 | 583,581.84 | Related to income |
| IPRs subsidy | | | | | | | 2,200.00 | Related to income |
| E-Government Intranet important information system protection technology and product research | | | | | | 2,710,000.00 | 1,190,000.00 | Related to income |
| Early warning system which safeguards data center safety and economic operation | | | | | | 1,000,000.00 | | Related to income |
| Excellent talent awards | | | | | | 717,000.00 | | Related to income |
| Merger subsidy (Zhongguancun Science and Technology Park Management Committee) | | | | | | | 350,000.00 | Related to income |
| Information system (government affairs and medical care) operation and maintenance system R&D | | | | | | | 494,671.01 | Related to income |
| Green data center monitoring and management system | | | | | | | 1,286.50 | Related to income |

| Subsidy items | Provided by | Provision reason | Nature | Whether the subsidy influences the profit and loss of that year or not | Whether it's special subsidy or not | Year 2015 | Year 2014 | Related to asset/ Related to income |
|--|-------------|------------------|--------|--|-------------------------------------|---------------|--------------|--|
| Carrier-class firewall R&D and industrialization | | | | | | | 175,000.00 | Related to income |
| 2014 Science and technology service industry subsidy special project after promotion | | | | | | | 500,000.00 | Related to income |
| National People's Congress functional support system technology research and application demonstration | | | | | | | 980,000.00 | Related to income |
| Data center virtual resources scheduling and R&D facing social management and services | | | | | | | 2,529,838.26 | Related to income |
| Zhongguancun Science and Technology Park information monitoring and warning platform development special fund | | | | | | | 945,010.00 | Related to income |
| RFID product R&D and industry application demonstration 121 | | | | | | | 691,843.27 | Related to income |
| Beijing-Tianjin-Hebei Region emergency public service information technology system research | | | | | | 230,650.56 | | Related to income |
| Safe and reliable information system technology supporting public service platform | | | | | | 4,000,000.00 | | Related to income |
| Cloud security management platform industrialization | | | | | | 24,376.00 | 4,475,624.00 | Related to income |
| 2014 Beijing high-tech achievements transformation program | | | | | | 405,494.19 | 299,236.72 | Related to income |
| National Science and Technology Plan coordinated management platform and key technology research demonstration | | | | | | 10,754,005.40 | 3,245,994.60 | Related to income |
| CETC industrial development input program | | | | | | 742,202.37 | | Related to income |
| Education cloud green and safe service guarantee | | | | | | 1,926,939.06 | 242,145.20 | Related to income |
| Taiji Shares city emergency field Internet of things application supporting platform R&D and industrialization program | | | | | | 54.50 | 3,719,945.50 | Related to income |
| Intelligent Yan'an intelligent application supporting platform key technology research application demonstration | | | | | | | 303,764.95 | Related to income |
| Administrative information system key technology and application demonstration based on cloud computing | | | | | | 150,000.00 | | Related to income |

| Subsidy items | Provided by | Provision reason | Nature | Whether the subsidy influences the profit and loss of that year or not | Whether it's special subsidy or not | Year 2015 | Year 2014 | Related to asset/ Related to income |
|---|-------------|------------------|--------|--|-------------------------------------|---------------|---------------|--|
| High-performance reliable WEB safety protection gateway R&D | | | | | | | 150,000.00 | Related to income |
| Subsidy from Beijing Haidian District Development and Reform Commission | | | | | | | 30,000.00 | Related to income |
| Zhongguancun Science and Technology Park Management Committee subsidies on interest payment | | | | | | 56,933.00 | 313,978.00 | Related to income |
| Nanjing Jingning Management Committee enterprise development fund | | | | | | | 20,000.00 | Related to income |
| Guiyang High-Tech Industrial Investment Group Co., Ltd. industry guidance supporting fund | | | | | | 6,000,000.00 | | Related to income |
| Taiji Intelligent Traveling Scientific and Technical Innovation Center construction project | | | | | | 1,000,000.00 | | Related to income |
| Total | — | — | — | — | — | 46,526,566.54 | 38,202,574.56 | — |

Other note:

70. Non-operating expenses

Unit: Yuan

| Items | Year 2015 | Year 2014 | Amount included in the current non-recurring profit and loss |
|--|------------|------------|--|
| Total Loss on disposal of non-current assets | 53,732.17 | 93,796.81 | 53,732.17 |
| Including: Loss on disposal of fixed assets | 53,732.17 | 93,796.81 | 53,732.17 |
| Loss on disposal of intangible assets | | | |
| Loss on debt restructuring | | | |
| Loss on non-monetary assets exchange | | | |
| External donation | 230,000.00 | 290,000.00 | 230,000.00 |
| Other | 3,509.75 | 1,964.61 | 3,509.75 |
| Total | 287,241.92 | 385,761.42 | 287,241.92 |

Other note:

71. Income tax expenses

(1) Table of income tax expenses

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|---------------------------------------|-----------------------|----------------------|
| Income tax expenses of current period | 47,882,827.01 | 26,404,776.88 |
| Adjustment of deferred income tax | <u>-10,292,601.85</u> | <u>-6,257,302.57</u> |
| Total | <u>37,590,225.16</u> | <u>20,147,474.31</u> |

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

Unit: Yuan

| Items | Year 2015 |
|--|----------------|
| Total profit | 238,767,762.03 |
| Income tax expenses calculated as per statutory/applicable tax rate | 35,815,164.28 |
| Influence of different tax rate applicable to subsidiary | -1,841,612.36 |
| Influence of adjusting income tax of previous period | -1,177,011.27 |
| Influence of non-taxable income | 0.00 |
| Influence of non-deductible costs, expenses and losses | 1,826,505.59 |
| Influence of deductible losses using unrecognized deferred income tax assets in previous period | -19,711.86 |
| Influence of deductible and temporary difference or deductible losses of unrecognized deferred income tax assets in current period | 4,858,269.40 |
| Influence of change in tax rate | -1,871,378.62 |
| Tax-exemption income | 37,590,225.16 |

Other note

72. Other comprehensive income

See notes for details.

73. Items in cash flow statement*(1) Other cash received relating to business activities**Unit: Yuan*

| Items | Year 2015 | Year 2014 |
|--|------------------------------|------------------------------|
| Bank interest income | 12,291,410.38 | 5,781,439.10 |
| Government grants rather than return of taxes and dues | 34,307,368.64 | 24,757,200.00 |
| Accounts receivable and accounts payable | 204,375,838.85 | 31,488,965.65 |
| Guarantee deposit received | 290,762,071.13 | 239,421,839.30 |
| Change in limited monetary funds | 114,981,208.29 | 26,683,820.55 |
| Other | <u>6,137,677.31</u> | <u>19,527,347.17</u> |
| Total | <u>662,855,574.60</u> | <u>347,660,611.77</u> |

Other cash received relating to business activities:

*(2) Other cash paid relating to business activities**Unit: Yuan*

| Items | Year 2015 | Year 2014 |
|--|------------------------------|------------------------------|
| Operating management expenses paid | 201,666,228.59 | 164,359,716.84 |
| Accounts receivable and accounts payable | 90,921,994.84 | 37,497,427.44 |
| Guarantee deposit paid | 295,696,148.35 | 265,290,138.98 |
| Other | <u>5,615,236.37</u> | <u>3,398,268.36</u> |
| Total | <u>593,899,608.15</u> | <u>470,545,551.62</u> |

Other cash paid relating to business activities:

*(3) Other cash received relating to investment activities**Unit: Yuan*

| Items | Year 2015 | Year 2014 |
|--------------|--------------------|--------------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other cash received relating to investment activities:

(4) Other cash paid relating to investment activities

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|-------|-------------|-------------|
| Total | <u>0.00</u> | <u>0.00</u> |

Other cash paid relating to investment activities:

(5) Other cash received relating to financial activities

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|---|----------------------|-----------------------------|
| Received government subsidy related to assets | <u>31,570,000.00</u> | <u> </u> |
| Total | <u>31,570,000.00</u> | <u>0.00</u> |

Other cash received relating to financial activities:

(6) Other cash paid relating to financial activities

Unit: Yuan

| Items | Year 2015 | Year 2014 |
|--|-------------------|-----------------------------|
| Handling charge paid in distributing dividends | <u>241,472.19</u> | <u> </u> |
| Total | <u>241,472.19</u> | <u>0.00</u> |

Other cash paid relating to financial activities

74. Supplementary information on cash flow statements*(1) Supplementary information on cash flow statements**Unit: Yuan*

| Supplementary material | Year 2015 | Year 2014 |
|---|------------------|------------------|
| 1. To Adjust the Net-profit as Cash Flow of Operating Activities: | — | — |
| Retained profits | 201,177,536.87 | 198,190,532.27 |
| Add: Provision for asset impairment | 41,695,406.05 | 28,369,787.33 |
| Fixed assets depreciation, oil and gas assets depreciation, productive biological assets depreciation | 8,100,237.04 | 7,208,174.18 |
| Amortization of intangible assets | 28,144,426.00 | 22,239,904.52 |
| Amortization of long-term deferred expenses | 2,034,778.44 | 2,131,180.68 |
| Losses on Disposal of Fixed Assets, Intangible Assets and Other Long-term Assets (Income marked “-”) | -2,137,441.67 | 84,515.41 |
| Losses on Disposal of Fixed Assets (Income marked “-”) | | |
| Fair value variation loss (Income marked “-”) | | |
| Financing Expense (Income marked “-”) | 10,016,816.69 | 6,119,485.64 |
| Investment Loss (Income marked “-”) | -1,478,746.25 | -2,096,792.19 |
| Decrease in Deferred Income Tax Assets (Increase marked “-”) | -10,275,300.34 | -6,188,096.51 |
| Increase in Deferred Income Tax Liabilities (Decrease marked “-”) | -17,301.51 | -69,206.06 |
| Decrease in inventory (Increase marked “-”) | -394,257,127.10 | 9,718,221.97 |
| Decrease in Operating Items Receivable (Increase marked “-”) | -669,532,181.11 | -501,635,600.99 |
| Increase of Operating Payables (Decrease marked “-”) | 1,034,338,402.76 | 219,021,410.57 |
| Other | | |
| Net cash flow from operating activities | 247,809,505.87 | -16,906,483.18 |
| 2. Significant investment and financing activities without cash receipts and payments: | — | — |
| Conversion of Debt into Capital | | |
| Reclassification of Convertible Bonds Expiring within One Year as Current Liability | | |
| Fixed Assets Acquired under Financial Leases | | |
| 3. Change in Cash and Cash Equivalents: | — | — |
| Cash balance at the end of the Period | 1,009,899,067.20 | 850,846,775.18 |
| Subtract: amount at the beginning period | 850,846,775.18 | 1,054,299,917.24 |
| Add: amount of cash equivalents at the end of period | 0.00 | 0.00 |
| Subtract: amount of cash equivalents at the beginning period | 0.00 | 0.00 |
| Net Increase in cash and cash equivalents | 159,052,292.02 | -203,453,142.06 |

*(2) Net cash paid for acquiring subsidiary in 2015**Unit: Yuan*

| | Amount |
|--|--------------------|
| Business merger occurred in current period is included in cash or cash equivalent paid in current period | |
| Including: | — |
| Less: Less: Subsidiary held cash and cash equivalent on the purchase day | |
| Including: | — |
| Add: Prior period occurred business merger is included in cash or cash equivalent paid in current period | |
| Including: | — |
| | <u>—</u> |
| Net cash received for disposal of subsidiary | <u><u>0.00</u></u> |

Other note:

*(3) Net cash received for disposal of subsidiary in 2015**Unit: Yuan*

| | Amount |
|---|--------------------|
| Cash or cash equivalent received in current period for disposing subsidiaries in current period | |
| Including: | — |
| Less: Subsidiary held cash and cash equivalent on the day of losing right of control | |
| Including: | — |
| Add: cash or cash equivalent received in current period for disposing subsidiaries in previous period | |
| Including: | — |
| | <u>—</u> |
| Net cash received for disposal of subsidiary | <u><u>0.00</u></u> |

Other note:

(4) Composition of cash and cash equivalents

Unit: Yuan

| Items | Ending balance | Beginning balance |
|--|-----------------------|--------------------------|
| I. Cash | 1,009,899,067.20 | 850,846,775.18 |
| Including: Cash in Stock | 233,157.30 | 650,686.15 |
| Bank deposit available for immediate payment | 1,006,499,165.90 | 793,048,192.33 |
| Other currency available for immediate payment | 3,166,744.00 | 57,147,896.70 |
| Fund deposited in the central bank available for payment | | |
| Due from placements with banks or other financial institutions | | |
| Call loan to banks | | |
| II. Cash equivalents | 0.00 | 0.00 |
| Including: bond investment due in 3 months | | |
| III. Balance of cash and cash equivalents | 1,009,899,067.20 | 850,846,775.18 |
| Including: parent company or subsidiary in the Group uses limited cash and cash equivalent | | |

Other note:

75. Notes to statement of change in equity

Specify "Others" name and adjustment amount for the balance in the end of last year, adjustment amount and other matters:

None.

Other note:

(2) *Overseas operating entity, for significant overseas operating entity, main business location, recording currency and basis of selection should be disclosed, the reason shall be disclosed in case of change in recording currency.*

Applicable Inapplicable

78. Hedging

Hedged items and relevant hedging instrument, qualitative and quantitative information of hedged risk shall be disclosed according the type of hedging:

None.

79. Other

None.

VIII. CHANGE OF RANGE OF CONSOLIDATED FINANCIAL STATEMENTS

1. Business combination not under common control

(1) *Business combination not under common control in report period*

Unit: Yuan

| Name of the combined entity | Acquisition time of equity | Acquisition cost of equity | Acquisition proportion of equity | Form of achievement | Acquisition date | Confirming basis of acquisition date | Income of | Retained |
|-----------------------------|----------------------------|----------------------------|----------------------------------|---------------------|------------------|--------------------------------------|---|---|
| | | | | | | | entity from acquisition date to the end of period | profits of the combined entity from acquisition date to the end of period |
| | | | | | | | | |

*(2) Combined cost and goodwill**Unit: Yuan***Merger cost**

- Cash
- Non-cash assets' fair value
- Issued or borne liabilities' fair value
- Issued equity securities' fair value
- Or fair value with consideration
- Fair value of equity held prior to the purchase day
on the purchase day
- Others

Total of merger cost

Less: Fair value share of the obtained net identifiable assets
 Goodwill/merger cost is less than the amount of fair value share
 of the obtained net identifiable assets

*(3) Identifiable assets and liabilities of the combined entity on the purchase date**Unit: Yuan*

| | Fair value on the purchase day | Book value on the purchase day |
|--|---|---|
|--|---|---|

Assets:

Monetary capital

Receivables

Inventory

Fixed assets

Intangible assets

Liabilities:

Loan

Payables

Deferred income tax liabilities

Net assets

Less: minority stockholder's interest

Net assets obtained

(4) Profit and loss generated from re-measuring the equity held before acquisition date at fair value

Whether business combination is achieved through several transactions and the control is achieved in the report period

Yes No

Unit: Yuan

| Name of the purchased party | Book value of equity already held prior to the purchase day on the purchase day | Fair value of equity already held prior to the purchase day on the purchase day | For equity held prior to the purchase day, remeasure the generated profits or losses according to the fair value | Determination method and main assumption of fair value of equity already held prior to the purchase day on the purchase day | Prior to the purchase day, |
|-----------------------------|---|---|--|---|---|
| | | | | | amount of other comprehensive income transferred to investment income, related to held equity |
| | | | | | |

Other note:

(5) Combination consideration or the fair value of identifiable assets and liabilities of the combined entity cannot be recognized at the acquisition date or the period when the combination occurs

(6) Other note

2. Business combination under common control

(1) Business combination under common control in report period

Unit: Yuan

| Name of the combined entity | Equity proportion acquired in business combination | Basis of business combination under common control | Acquisition date | Confirming basis of acquisition date | Income of the combined entity from the beginning of the combination period to acquisition date | Retained | Income of the combined entity during comparing period | Net profit of the combined entity during comparing period |
|-----------------------------|--|--|------------------|--------------------------------------|--|---|---|---|
| | | | | | | profits of the combined entity from the beginning of the combination period to acquisition date | | |
| | | | | | | | | |

Other note:

(2) *Combined cost*

Unit: Yuan

Merger cost

- Cash
- Non-cash assets' book value
- Issued or borne liabilities' book value
- Issued equity securities' book value
- Or with consideration

(3) *Book value of assets and liabilities of the combined entity on the combination date*

Unit: Yuan

| | Day of merger | End of prior period |
|---------------------------------------|----------------------|----------------------------|
| Assets: | | |
| Monetary capital | | |
| Receivables | | |
| Inventory | | |
| Fixed assets | | |
| Intangible assets | | |
| Liabilities: | | |
| Loan | | |
| Payables | | |
| Net assets | | |
| Less: minority stockholder's interest | | |
| Net assets obtained | | |

3. Counter purchase

Basic information of transaction, basis for counter purchase, reserved assets of listed company, whether the liabilities constitute a business and its base, determining combined cost, adjusting the amount of equity according to equity transaction and its calculation:

4. Disposal of subsidiary

Whether single disposal of investment in subsidiary results in losing control power

Yes No

Whether several disposal transactions of investment in subsidiary results in losing control power in the current period

Yes No

5. Other reasons for change in combination range

Specify other reasons for change in combination range (for example, newly established subsidiary, liquidation of subsidiary, etc) and relevant conditions:

The Company invested RMB10million in cash to establish Jilin Taiji Computer Corporation Limited, a wholly owned subsidiary, on 14 March 2015. The Company invested RMB50 million in cash to establish Taiji Intelligent Travelling Information Technology Co., Ltd, a wholly owned subsidiary, on 13 March 2015, with shareholding ratio of 100%.

6. Other

IX. EQUITY IN OTHER ENTITIES

1. Equity in subsidiary

(1) Composition of enterprise group

| Name of subsidiary | Main business location | Registration place | Nature of business | Shareholding proportion | | Form of achievement |
|--|------------------------|--------------------|---|-------------------------|----------|---|
| | | | | Direct | Indirect | |
| Beijing Taiji Information System Technology Co.,Ltd. | Beijing City | Beijing City | System integration | 100.00% | | Establish |
| Beijing Taiji Network Technology Co., Ltd. | Beijing City | Beijing City | Technical services | 100.00% | | Establish |
| Shenzhen Taiji Building Technology Co., Ltd. | Shenzhen City | Shenzhen City | Technological development and selling of building intelligent product | 80.00% | | Establish |
| Taiji Computer (Xi'an) Co., Ltd. | Xi'an City | Xi'an City | System integration | 100.00% | | Establish |
| Hainan Taiji Information Technology Co., Ltd. | Hainan | Hainan | System integration | 100.00% | | Establish |
| Beijing Taiji Cloud Computer Technology Development Co., Ltd. | Beijing City | Beijing City | Property management, Technical services | 100.00% | | Establish |
| Beijing Smartdot Science and Technology Ltd. | Beijing City | Beijing City | Software development | 91.00% | | Obtain by business combination under non-common control |
| Nanjing Smartdot Information Technology Ltd. | Nanjing City | Nanjing City | Software development | | 91.00% | Obtain by business combination under non-common control |
| Beijing Smartdot Information Technology Ltd. | Beijing City | Beijing City | Software development | | 55.51% | Obtain by business combination under non-common control |
| Beijing Boyun Haoya Science and Technology Development Limited Company | Beijing City | Beijing City | Technological development | | 72.80% | Establish |
| Jilin Taiji Computer Corporation Limited | Changchun City | Changchun City | Technology development | 100.00% | | Newly established |
| Taiji Intelligent Traveling Information Technology Co., Ltd. | Guiyang City | Guiyang City | Technology development | 100.00% | | Newly established |

Shareholding proportion in subsidiary differs from proportion of voting right: Judgment base of having $\leq 50\%$ voting right but controlling the invested unit as well as having $> 50\%$ voting right but not controlling the invested unit: Basis of controlling significant structuring subject in the combination range:

Basis of determining whether the Company is contracting-out party or client: Other note:

(2) *Significant non-wholly-owned subsidiaries*

Unit: Yuan

| Name of subsidiaries | Minority shareholder's shareholding proportion | Profits and loss attributable to the minority shareholders in 2015 | The dividends declared to distribute to the minority shareholders in 2015 | Ending book value of minority interests |
|--|--|--|---|---|
| Beijing Smartdot Science and Technology Ltd. | 9.00% | 4,885,318.99 | | 24,597,692.41 |

Shareholding proportion of minority shareholder in subsidiary differs from proportion of voting right:

Other note:

(3) *Main financial information for significant non-wholly-owned subsidiaries*

Unit: Yuan

| Name of subsidiaries | Ending balance | | | | | | Beginning balance | | | | | |
|--|----------------|--------------------|----------------|---------------------|-------------------------|-------------------|-------------------|--------------------|----------------|---------------------|-------------------------|-------------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | total liabilities | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | total liabilities |
| Beijing Smartdot Science and Technology Ltd. | 338,524,196.64 | 96,721,974.38 | 435,246,171.02 | 147,068,630.84 | 32,706,215.48 | 179,774,846.32 | 299,242,903.81 | 42,703,298.88 | 341,946,202.69 | 105,899,789.80 | 10,387,551.20 | 116,287,341.00 |

Unit: Yuan

| Name of subsidiaries | Year 2015 | | | | Year 2014 | | | |
|--|------------------|---------------|----------------------------|--------------------------------------|------------------|---------------|----------------------------|--------------------------------------|
| | Operating income | Net profit | Total comprehensive income | Cash flows from operating activities | Operating income | Net profit | Total comprehensive income | Cash flows from operating activities |
| Beijing Smartdot Science and Technology Ltd. | 265,027,826.71 | 49,812,463.01 | 49,812,463.01 | 38,487,040.46 | 209,836,629.68 | 54,637,534.67 | 54,637,534.67 | 15,716,877.43 |

Other note:

(4) *Significant restrictions for using the Company's assets and settling the Company's liabilities*

(5) *Financial support or other support provided to structuring subject in the range of combined financial statement*

Other note:

2. Transactions for which the share of owner's equity in subsidiary changes but the subsidiary is controlled

(1) *Information for change in the share of owner's equity in subsidiary*

(2) *The influence of transaction on minority equity and owner's equity attributable to the parent*

Unit: Yuan

Purchase cost/disposal consideration

— Cash

— Non-cash assets' fair value

Total of purchase cost/disposal consideration

Less: subsidiary net assets share calculated according to obtained/disposed equity ratio

Balance

Including: adjust capital reserve

Adjust surplus reserves

Adjust undistributed profit

Other note:

3. Equity in joint venture or affiliated business

(1) *Significant cooperative enterprises or affiliated business*

| Name of cooperative enterprises or affiliated business | Main business location | Registration place | Nature of business | Shareholding proportion | | Accounting treatment method of investment in cooperative enterprises or affiliated business |
|---|------------------------|--------------------|---------------------------|-------------------------|----------|---|
| | | | | Direct | Indirect | |
| Beijing Taiji Ao'Tian Technology Co., Ltd. | Beijing City | Beijing City | Technological development | 50.00% | | Equity method |
| Beijing Kingbase Information Technology Limited Liability Company | Beijing City | Beijing City | Software development | 32.74% | | Equity method |
| Shenzhen Apusic Co., Ltd. | Shenzhen | Shenzhen | Basic software | 21.00% | | Equity method |

Shareholding proportion in cooperative enterprises or affiliated business differs from proportion of voting right:

Judgment base of having <20% voting right but having significant influence as well as having \geq 20% voting right but not having significant influence:

(2) *Main financial information for significant cooperative enterprises*

Unit: Yuan

| Items | Ending balance/ Year 2015 Beijing Taiji Ao'Tian Technology Co., Ltd. | Beginning balance/ Year 2014 Beijing Taiji Ao'Tian Technology Co., Ltd. |
|--|---|--|
| Current assets | 5,247,399.68 | 4,679,436.01 |
| Including: Cash and cash equivalent | 5,062,399.68 | 4,679,436.01 |
| Non-current assets | 115,331,325.00 | 115,311,500.00 |
| Total assets | 120,578,724.68 | 119,990,936.01 |
| Current liabilities | 884,000.00 | 884,000.00 |
| Non-current liabilities | | |
| Total liabilities | 884,000.00 | 884,000.00 |
| Minority equity | | |
| Stockholder's equity attributable to the parent | 119,694,724.68 | 119,906,936.01 |
| Net asset share calculated with shareholding proportion | 59,847,362.33 | 59,953,468.00 |
| Adjusting events | | |
| — Goodwill | | |
| — Internal transaction unrealized profit | | |
| — Others | | |
| Book value of investment to joint venture equity | 59,847,362.33 | 59,953,468.00 |
| Equity investment's fair value of joint venture which has public offer | | |
| Operating revenues | | |
| Financial cost | -15,057.88 | -20,634.09 |
| Income tax expense | | |
| Retained profits | -212,211.33 | -50,027.91 |
| Net profit of terminated operation | | |
| Other comprehensive income | | |
| Total comprehensive income | -212,211.33 | -50,027.91 |
| Dividends received from cooperative enterprises in 2015 | | |

Other note:

(3) Main financial information for significant affiliated business

Unit: Yuan

| | Ending balance/Year 2015 | | Beginning balance/Year 2014 | |
|--|--|-----------------------------|--|-----------------------------|
| | Beijing Kingbase Information Technologies Inc. | Shenzhen Apusic Co., Ltd | Beijing Kingbase Information Technologies Inc. | Shenzhen Apusic Co., Ltd |
| Current assets | 118,541,698.61 | 68,040,581.90 | 111,163,054.38 | |
| Non-current assets | 86,252,689.06 | 1,187,292.34 | 74,718,775.62 | |
| Total assets | 204,794,387.67 | 69,227,874.24 | 185,881,830.00 | |
| Current liabilities | 32,527,458.02 | 13,547,302.33 | 14,647,707.91 | |
| Non-current liabilities | 13,582,126.66 | 3,860,000.00 | 14,027,692.03 | |
| Total liabilities | 46,109,584.68 | 17,407,302.33 | 28,675,399.94 | |
| Minority equity | 7,119,993.49 | | 6,709,023.66 | |
| Stockholder's equity | | | | |
| attributable to the parent | 151,564,809.50 | 51,820,571.91 | 150,497,406.40 | |
| Net asset share calculated with shareholding proportion | 49,622,318.63 | 10,882,320.10 | 49,272,850.86 | |
| Adjusting items | | | | |
| — Goodwill | 3,139,359.79 | 49,550,224.41 | 3,139,359.79 | |
| Current assets | 3,139,359.79 | 49,550,224.41 | 3,139,359.79 | |
| — Internal transaction unrealized profit | | | | |
| — Other | 11,152.57 | | 11,152.57 | |
| Book value of equity investment in affiliated business | 52,772,830.99 | 60,432,544.51 | 52,423,363.22 | |
| Equity investment's fair value of joint venture which has public offer | | | | |
| Income tax expense | 80,679,909.63 | 34,585,719.39 | 86,577,434.15 | |
| Retained profits | 1,478,372.93 | -3,270,798.78 | 7,827,899.79 | |
| Net profit of terminated operation | | | | |
| Other comprehensive income | | | | |
| Total comprehensive income | 1,478,372.93 | -3,270,798.78 | 7,827,899.79 | |
| Dividends received from cooperative enterprises in 2015 | | | | |

Other note:

The goodwill of Shenzhen Apusic Co., Ltd. is calculated according to the purchase day of Sept. 30, 2015; other financial information is filled up according to the report of Dec. 31, 2015.

(4) *Summary on financial information for insignificant cooperative enterprises and affiliated business*

Unit: Yuan

| | Ending balance/ Year 2015 | Beginning balance/ Year 2014 |
|--|------------------------------|---------------------------------|
| Cooperative enterprises: | — | — |
| Total of investment book value | | |
| Total amount calculated with the following shareholding proportion | — | — |
| — Net profit | | |
| — Other comprehensive income | | |
| — Total comprehensive income | | |
| Affiliated business: | — | — |
| Total book value of investment | 187,632.80 | 394,560.23 |
| Total amount calculated with the following shareholding proportion | — | — |
| — Net profit | -517,318.57 | -5,439.77 |
| — Other comprehensive income | | |
| —Total comprehensive income | <u>-517,318.57</u> | <u>-5,439.77</u> |

Other note:

(5) *Significant restrictions for cooperative enterprises or affiliated business transferring funds to the Company*

(6) *Excess loss generated in cooperative enterprises or affiliated business*

Unit: Yuan

| Name of cooperative enterprises or affiliated business | Accumulated unconfirmed loss in previous periods | Unconfirmed loss in 2015 (or retained profits shared in 2015) | Accumulated unconfirmed loss at the end of period |
|--|--|---|---|
| | | | |

Other note:

(7) *Unconfirmed commitment related to investment in cooperative enterprises*

(8) *Contingent liabilities related to investment in cooperative enterprises or affiliated business*

4. Significant joint venture

| Name of joint venture | Main business location | Registration place | Nature of business | Shareholding proportion | |
|-----------------------|------------------------|--------------------|--------------------|-------------------------|----------|
| | | | | Direct | Indirect |

Shareholding proportion in joint venture differs from proportion of voting right:

For joint venture as a independent subject, the basis of classifying as joint venture:

Other note:

5. Equity of structuring subject out of the range of combined financial statement

Information for structuring subject out of the range of combined financial statement:

6. Other**X. RISK RELATED TO FINANCIAL INSTRUMENT**

The Board of Directors of the Company is responsible for planning and establishing risk management architecture, developing risk management policies and relevant guidelines as well as supervising the implementation of risk management measures. Through developing risk management policies, establishing appropriate control programs, identifying, analyzing, supervising and reporting risk conditions, the Company regularly evaluates the overall risk conditions. The business activities of the Company will face with many financial risks: market risk (mainly including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company develops overall risk management plan against the unpredictability of financial market to reduce the possible adverse influence on the financial performance of the Company as far as possible.

The Company disperses the risks related to financial instruments through appropriate diversified investments and business portfolio and develops corresponding risk management policies to reduce the risks concentrated on any single industry, specified area or specified counterparty. On December 31, 2015, the Company has no risks concentrated on client type, an industry or geographic location. On the contrary, our business objects and investments are widely distributed, our risks related to financial instruments are mainly affected by the characteristics of various clients, without similar characteristics and financial instrument influenced by change in similar economy or other conditions, therefore, we believe that our concentrated risks are limited.

1. Market risk*(1) Foreign exchange risk*

The Company's main business is operated in domestic and settled with RMB. But the Company's future foreign currency transaction (the money of account for foreign currency assets and liabilities and foreign currency transaction mainly is U.S. dollar) still faces with foreign exchange risk. Finance department in the headquarter is responsible for supervising scale of foreign currency transaction as well as foreign currency assets and liabilities to reduce foreign exchange risk as far as possible; therefore, the Company will likely sign forward foreign exchange contract or currency swap contract to evade foreign exchange risk. In 2015 and 2014, the Company has not signed any forward foreign exchange contract or currency swap contract.

On Dec. 31, 2015 and Dec. 31, 2014 (end of term foreign currency balance is RMB0.00), the Group held foreign currency financial assets and foreign currency financial liabilities converted amount into RMB is as follows:

| Item | Dollars | Ending amount Other foreign currency items | Total |
|------------------|----------------------|--|----------------------|
| Monetary capital | 183.79 | | 183.79 |
| Receivables | <u>78,655,260.00</u> | | <u>78,655,260.00</u> |
| Total | <u>78,655,443.79</u> | | <u>78,655,443.79</u> |

On December 31, 2015, for the various US dollar financial assets and financial liabilities, if RMB appreciate or depreciate 10% to US dollar, British pounds and Euro, while other elements remain unchanged, then the Group will have an increase or decrease of net profits of about RMB7,865,544.38 (December 31, 2014: none), and an increase or decrease of other comprehensive income of about RMB7,865,544.38 (December 31, 2014: none).

(2) Interest rate risk

The Group's interest rate risk mainly comes from bank loans. The floating rate financial liabilities let the Group face cash flow interest rate risk, and fixed interest rate financial liabilities let the Group face fair value interest rate risk. The Group decides the relative proportion of fixed interest rate and floating rate contract according to the market circumstances at the time.

Up to December 31, 2015, the Group doesn't have long-term interest-bearing liabilities such as long-term bank loans and bonds payable; therefore the interest rate risk is not significant.

(2) Information for financial assets overdue and impaired:

| Name of project | Ending amount | Beginning amount |
|--------------------------------|-------------------------|-------------------------|
| Accounts receivable: | | |
| Not overdue and not impaired | 1,303,243,043.08 | 882,687,159.38 |
| Overdue but not impaired | | |
| Impaired | 940,685,764.29 | 733,471,968.36 |
| Subtract: Impairment provision | <u>169,728,271.56</u> | <u>126,403,074.40</u> |
| Subtotal | <u>2,074,200,535.81</u> | <u>1,489,756,053.34</u> |
| Other accounts receivable: | | |
| Not overdue and not impaired | 32,997,746.28 | 26,339,572.79 |
| Overdue but not impaired | | |
| Impaired | 164,398,618.49 | 168,856,506.62 |
| Subtract: Impairment provision | <u>26,617,192.91</u> | <u>28,246,984.02</u> |
| Subtotal | <u>170,779,171.86</u> | <u>166,949,095.39</u> |
| Total | <u>2,244,979,707.67</u> | <u>1,656,705,148.73</u> |

① Credit quality information for financial assets not overdue and not impaired

| Name of project | Ending balance | Beginning balance |
|------------------------|-------------------------|--------------------------|
| Receivables | 1,303,243,043.08 | 882,687,159.38 |
| Other receivables | <u>32,997,746.28</u> | <u>26,339,572.79</u> |
| Total | <u>1,336,240,789.36</u> | <u>909,026,732.17</u> |

① Individual financial assets impaired

If there are objective evidence showing for financial assets rather than financial assets recorded at fair value with change included in the current profit and loss, after initial recognition, one or several conditions occur and such conditions influence estimated future cash flow of financial assets and the influence can be reliably calculated, it is considered that the financial assets are impaired. The Company judges impairment of financial assets considering factors specified in section “III [10(3)] and III [11]”. On December 31, 2015, information for financial assets which have been impaired for single asset without things pledged or other credit enhancement (On December 31, 2015: None).

| Age | Ending amount | | beginning amount | |
|---|-------------------------|-----------------------|-----------------------|-----------------------|
| | Book balance | Impairment loss | Book balance | Impairment loss |
| Accounts receivable: | | | | |
| Evaluated in the manner of portfolio | 940,685,764.29 | 169,728,271.56 | 733,471,968.36 | 126,403,074.40 |
| Evaluated in the manner of single account | | | | |
| Subtotal | <u>940,685,764.29</u> | <u>169,728,271.56</u> | <u>733,471,968.36</u> | <u>126,403,074.40</u> |
| Other accounts receivable: | | | | |
| Evaluated in the manner of portfolio | 164,398,618.49 | 26,617,192.91 | 168,856,506.62 | 28,246,984.02 |
| Evaluated in the manner of single account | | | | |
| Subtotal | <u>164,398,618.49</u> | <u>26,617,192.91</u> | <u>168,856,506.62</u> | <u>28,246,984.02</u> |
| Total | <u>1,105,084,382.78</u> | <u>196,345,464.47</u> | <u>902,328,474.98</u> | <u>154,650,058.42</u> |

(3) *Financial assets or non-financial assets recognized through things pledged or other credit enhancement in current period*

The Company has no financial assets or non-financial assets recognized through things pledged or other credit enhancement in current period.

3. Liquidity risk

Each subsidiary of the Company is responsible for its own cash flow prospection. Finance department in the headquarter summarizes cash flow prospection of each subsidiary, and continuously supervises short-term and long-term fund demand at the group level, to ensure abundant cash resources and negotiable securities ready for realization; meanwhile, it continuously supervises whether regulations on loan agreement are met, obtains the commitment from main financing institution to provide abundant reserve funds to meet short-term and long-term fund demand.

On the date of balance sheet date, various financial liabilities are disclosed with undiscounted contract cash flow by maturity date as follows:

| Items | Ending amount | | | | Total |
|---------------------------------------|-------------------------|-----------|----------------------|--------------|-------------------------|
| | Within one year | 1–2 years | 2–5 years | Over 5 years | |
| Short-term loans (including interest) | 413,956,755.95 | | | | 413,956,755.95 |
| Notes payable | 130,997,220.21 | | | | 130,997,220.21 |
| Accounts payable | 1,464,101,263.04 | | | | 1,464,101,263.04 |
| Dividends payable | | | | | |
| Other accounts payable | 76,128,438.04 | | 44,041,028.40 | | 120,169,466.44 |
| Total | 2,085,183,677.24 | | 44,041,028.40 | | 2,129,224,705.64 |
| Items | Beginning amount | | | | Total |
| | Within one year | 1–2years | 2–5 years | Over 5 years | |
| Short-term loans (including interest) | 36,179,708.34 | | | | 36,179,708.34 |
| Notes payable | 50,894,773.85 | | | | 50,894,773.85 |
| Accounts payable | 756,364,565.20 | | | | 756,364,565.20 |
| Dividends payable | 2,097,812.00 | | | | 2,097,812.00 |
| Other accounts payable | 69,489,623.26 | | | | 69,489,623.26 |
| Total | 915,026,482.65 | | | | 915,026,482.65 |

XI. DISCLOSURE OF FAIR VALUE

1. Ending fair value of assets and liabilities accounted at fair value

Unit: Yuan

| Items | Fair value accounting at the first level | Ending fair value | | Total |
|--|--|--|--|-------|
| | | Fair value accounting at the second level | Fair value accounting at the third level | |
| I. Persistent fair value accounting | — | — | — | — |
| (I) Financial assets which are measured with fair value and their variations are included in current profits and losses | | | | |
| 1. Trading financial assets | | | | |
| (1) Investment of liability instrument | | | | |
| (2) Investment of equity instrument | | | | |
| (3) Financial derivative | | | | |
| 2. Financial assets which are designated to be measured with fair value and their variations are included in current profits and losses | | | | |
| (1) Investment of liability instrument | | | | |
| (2) Investment of equity instrument | | | | |
| (II) Available-for-sale financial assets | | | | |
| (1) Investment of liability instrument | | | | |
| (2) Investment of equity instrument | | | | |
| (3) Others | | | | |
| (III) Investment Real Estate | | | | |
| 1. Land use right for leasing | | | | |
| 2. Leased building | | | | |
| 3. Held and prepared to be transferred land use right after appreciation | | | | |
| (IV) Biological Assets | | | | |
| 1. Consumptive biological assets | | | | |
| 2. Productive biological assets | | | | |
| Asset total which is continuously measured with fair value | | | | |
| (V) Trading Financial Liabilities | | | | |
| Including: issued trading bonds | | | | |
| Derivative financial liabilities | | | | |
| Others | | | | |
| (VI) Financial assets which are designated to be measured with fair value and their variations are included in current profits and losses | | | | |
| Total liabilities which are continuously measured with fair value | | | | |
| II. Non-continuous fair value measurement | — | — | — | — |
| (I) Hold ready-for-sale assets | | | | |
| Non-continuous total assets measured with fair value | | | | |
| Non-continuous total liabilities measured with fair value | | | | |

2. Basis for determining the market price of items persistently and non-persistently accounted with fair value at the first level
3. For items persistently and non-persistently accounted with fair value at the second level, qualitative and quantitative information on valuation technique and important parameters used
4. For items persistently and non-persistently accounted with fair value at the third level, qualitative and quantitative information on valuation technique and important parameters used
5. For items persistently accounted with fair value at the third level, adjusting information between beginning and ending book value and sensitivity analysis on unobservable parameters
6. For items persistently accounted with fair value, transformation among levels in 2015, reason for transformation, policies for determining transformation date
7. Change in valuation technique in 2015 and the reason for change
8. Information for fair value of financial assets and liabilities not accounted with fair value
9. Other

XII. ASSOCIATED PARTY AND THEIR TRANSACTIONS

1. The parent company of the Company

| Name of the parent company | Registration place | Nature of business | Registered capital | Voting ratio in the Company | Shareholding ratio in the Company |
|----------------------------|--------------------|----------------------|--------------------|-----------------------------|-----------------------------------|
| The 15th Institute, CETC | Beijing City | Computing technology | 8,485.14 | 37.50% | 37.50% |

Details of the parent of the Company

The final controller of the Company is the 15th Institute, CETC.

Other note:

The final parent company of the company is China Electronics Technology Group Corporation (CETC).

CETC's wholly-owned subsidiary CETC Technology Investment Co., Ltd. directly holds 3.79% stock equity of the company.

2. Subsidiaries of the Company

See note 9 for information for subsidiaries of the Company and equity in other entities.

3. Information for cooperative and affiliated business

See note 9 — equity in other entities for significant cooperative or affiliated business.

Information for other cooperative or affiliated business which form balance through related transaction in the current or previous periods:

| Name of cooperative and affiliated | Relationship with the Company |
|------------------------------------|-------------------------------|
|------------------------------------|-------------------------------|

Other note:

There is no cooperative or affiliated business which form balance through related transaction in the current or previous periods.

4. Information for other associated party

| Name of other associated party | Relationship between other associated party and the Company |
|---|--|
| The 28th Research Institute of China Electronics Technology Group Corporation (The 28th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Beijing Huaxing Taiji Information Technology Co., Ltd. (Huaxing Taiji) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Beijing Kingbase Information Technologies Inc. | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Beijing Taiji Xianxing Electronic Technology Co., Ltd. (Taiji Xianxing) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Beijing Taiji Huabei Property Management Co., Ltd. (Huabei Property Management) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Beijing Xin'an Huaning Information Technology Co., Ltd. (Xin'an Huaning) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Beijing Zunguan Technologies Co., Ltd. (Zunguan Technologies) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Chengdu Westone Information Industry Co., Ltd. (Chengdu Westone) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Hangzhou Hikvision Digital Technology Co., Ltd. (Hikvision) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| Hebei Far East Harris Communication Co., Ltd. (Far East Harris) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC Electronic Equipment Co., Ltd. (Subsidiary of Equipment) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC Ocean Information Technology Research Institute Co., Ltd. (Ocean Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC International Trade Co., Ltd. (CETC International Trade) | Other affiliated enterprises controlled by the same the ultimate controlling party |

| Name of other associated party | Relationship between other associated party and the Company |
|--|--|
| CETC Changjiang Data Co., Ltd. (Changjiang Data) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC Finance Co., Ltd. (Finance Company) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC 22nd Research Institute, Tianbo Information System Engineering Co., Ltd. (Tianbo/Engineering) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC 27th Research Institute (27th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC 23rd Research Institute (23rd Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC 20th Research Institute (20th Research Institute) | Other affiliated enterprises controlled by the same the ultimate controlling party |
| CETC 33rd Research Institute (33rd Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 34th Research Institute (34th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 30th Research Institute (30th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 3rd Research Institute (3rd Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 13th Research Institute (13th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 14th Research Institute (14th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 10th Research Institute (10th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 11th Research Institute (11th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 52th Research Institute (52th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 53th Research Institute (53th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC 54th Research Institute (54th Research Institute) | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC Academy of Electronics and Information Technology | Other affiliated enterprises controlled by the same controlling shareholder |
| CETC Academy of Information Science Innovation | Other affiliated enterprises controlled by the same controlling shareholder |

Other note:

5. Associated transactions

(1) Associated transactions of merchandise purchase/receiving labor services

Table of merchandise purchase/receiving labor services

Unit: Yuan

| Associated Party | Content of Associated transaction | Year 2015 | Approved transaction amount | Whether more than the transaction amount | Year 2014 |
|--|-----------------------------------|---------------|-----------------------------|--|---------------|
| The 15th Research Institute | Purchase of goods | 1,745,874.26 | | | 24,132,959.57 |
| Hikvision | Purchase of goods | 7,829,461.78 | | | 6,079,051.82 |
| Huaxing Taiji | Purchase of goods. | 427,188.43 | | | 3,288,479.07 |
| | Receiving labor services | | | | |
| Chengdu Westone | Purchase of goods | | | | 2,452,991.46 |
| Zunguan Science & Technology | Purchase of goods | 71,792.45 | | | 245,169.81 |
| The 30th Research Institute | Purchase of goods | | | | 129,600.00 |
| Kingbase (Beijing) | Purchase of goods | 323,395.73 | | | |
| CETC Ocean Information Technology Research Institute Co., Ltd. | Purchase of goods | 44,028,236.80 | | | |
| The 28th Research Institute of CETC | Purchase of goods | 386,200.00 | | | |
| Huabei Property Management | Receiving labor services | 93,500.00 | | | |
| The 54th Research Institute of CETC | Purchase of goods | | | | 98,461.54 |
| Shenzhen GUOXINAN | Purchase of goods. | 82,185,340.23 | | | |
| | Receiving labor services | | | | |

Table of selling goods/rendering service

Unit: Yuan

| Associated Party | Content of Associated transaction | Year 2015 | Year 2014 |
|---|-----------------------------------|----------------|---------------|
| The 28th Research Institute | Supply of goods | 126,452,553.64 | 78,190,869.91 |
| The 15th Research Institute | Supply of goods, service | 73,141,019.82 | 26,003,455.67 |
| The 10th Research Institute | Supply of goods | | 4,125,833.50 |
| China Electric Power Research Institute | Supply of goods, service | 5,529,297.57 | 2,776,885.60 |
| The 11th Research Institute | Supply of goods, service | 401,707.65 | 1,197,628.19 |
| The 20th Research Institute | Supply of goods | 9,734.59 | 669,497.25 |
| The 54th Research Institute | Supply of goods | 1,825,911.63 | 483,875.93 |
| CETC | Supply of goods | 3,520,463.24 | 446,862.45 |
| Far East Harris | Supply of goods | 74,818.64 | 421,852.35 |
| Informatization Research Center | Supply of goods | 2,853,589.82 | 94,339.62 |
| Tianbo Engineering | Supply of goods | | 28,011.11 |
| The 3th Research Institute | Supply of goods | 187,061.29 | 4,391.71 |
| The 30th Research Institute | Supply of goods | | 1,239.32 |
| The 27th Research Institute | Supply of service | 158,383.02 | |
| Hikvision | Supply of goods, service | 39,861,848.05 | |
| CETC 52th Research Institute | Supply of goods | 157,730.70 | |
| CETC 53th Research Institute | Supply of goods | 51,374.04 | |
| Kingbase (Beijing) | Supply of service | 94,044.34 | |
| Subsidiary of Equipment | Supply of goods | 2,500.00 | |
| Subsidiary of Equipment | Supply of goods, service | 1,866,881.11 | |

Related transactions include sales of goods, rendering and receiving of services

(2) Related trusteeship/contracting

Trusteeship/contracting:

Unit: Yuan

| Name of client/contracting-out party | Name of entrusted/contracting party | Type of entrusted/contracted asset | Starting date of trusteeship/contracting | Termination | | Trusteeship/contracting revenue recognized in report period |
|--------------------------------------|-------------------------------------|------------------------------------|--|---------------------------------|---|---|
| | | | | date of trusteeship/contracting | Pricing basis for trusteeship/contracting fee | |

Related trusteeship/contracting-out

Entrustment/contracting-out:

Unit: Yuan

| Name of client/contracting-out party | Name of entrusted/contracting party | Type of entrusted/contracted asset | Starting date of trusteeship/contracting | Termination date of trusteeship/contracting | Pricing basis for trusteeship/contracting fee | Trusteeship/contracting revenue recognized in report period |
|--------------------------------------|-------------------------------------|------------------------------------|--|---|---|---|
|--------------------------------------|-------------------------------------|------------------------------------|--|---|---|---|

Related trusteeship/contracting:

(3) Leasing of associated transactions

The company is as lessor:

Unit: Yuan

| Name of the lessor | Leased asset types | Rental expenses in 2015 | Rental expenses in 2014 |
|--------------------|--------------------|-------------------------|-------------------------|
|--------------------|--------------------|-------------------------|-------------------------|

The company is as lessee:

Unit: Yuan

| Name of the lessor | Leased asset types | Rental expenses in 2015 | Rental expenses in 2014 |
|-----------------------------|--------------------|-------------------------|-------------------------|
| The 15th Research Institute | Operating lease | 6,508,800.00 | 6,508,800.00 |

Information for related-party lease

(4) Related guarantee

The company as guarantor

Unit: Yuan

| Secured party | Amount secured | Starting date of guarantee | Maturity date of guarantee | If guarantee is performed |
|---|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|
| Beijing Smartdot Technologies Co., Ltd. | 45,000,000.00 | 2015-11-09 | 2016-11-08 | No |
| Beijing Taiji Information System Technology Co., Ltd. | 50,000,000.00 | 2015-03-26 | 2017-03-25 | No |

The company as secured party

Unit: Yuan

| Guarantor | Amount secured | Starting date of guarantee | Maturity date of guarantee | If guarantee is performed |
|------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|
|------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|

Related guarantee

On March 26, 2015, the Company's fourth board of directors reviewed and approved "Proposal on Providing Guarantee for Wholly-owned Subsidiary Beijing Taiji Information System Technology Co., Ltd." on the 32rd meeting, the Company's board of directors agreed to provide guarantee for Beijing Taiji Information System Technology Co., Ltd.'s application to Zhongzhou Road Branch, Bank of Beijing for comprehensive credit line, with a guarantee amount not exceeding RMB50 million. The guarantee type was joint and several liability guarantee; the guarantee period was two years starting from the day of Taiji Information's liability performance period. Within the report period, the Company had provided accumulated guarantee of RMB17,144,700 for Taiji Information; up to December 31, 2015, the guarantee balance was RMB2,521,200.

On September 30, 2015, the Company's fourth board of directors reviewed and approved "Proposal on Providing Guarantee for Bank Credit Line of Beijing Smartdot Technologies Co., Ltd." on the 37th meeting, the Company's board of directors agreed the Company to provide guarantee for Beijing Taiji Information System Technology Co., Ltd.'s application to Huayuan Road Branch (Beijing), Shanghai Pudong Development Bank for comprehensive credit line, with a guarantee amount not exceeding RMB45 million. The guarantee type was joint and several liability guarantee; the guarantee period was one years starting from the day of Smartdot Technologies' liability performance period. Within the report period, the Company had provided accumulated guarantee of RMB7,003,300 for Smartdot Technologies; up to December 31, 2015, the guarantee balance was RMB7,003,300.

*(5) Inter-associate lending**Unit: Yuan*

| Associated Party | Amount borrowed | Starting date | Maturity date | Description |
|-----------------------------------|------------------------|-----------------------|-----------------------|--------------------|
| Loans from other affiliated party | | | | |
| CETC Finance Co., Ltd. | 60,000,000.00 | July 13, 2015 | July 12, 2016 | Short-term loans |
| CETC Finance Co., Ltd. | 80,000,000.00 | July 22, 2015 | July 21, 2016 | Short-term loans |
| CETC Finance Co., Ltd. | 50,000,000.00 | August 18, 2015 | August 17, 2016 | Short-term loans |
| CETC Finance Co., Ltd. | 50,000,000.00 | September 14, 2015 | September 13, 2016 | Short-term loans |

Loan for other affiliated party

*(6) Asset transfer and debt restructuring of affiliated party**Unit: Yuan*

| Associated Party | Content of Associated transaction | Year 2015 | Year 2014 |
|-------------------------|--|------------------|------------------|
|-------------------------|--|------------------|------------------|

*(7) Remuneration of key management personnel**Unit: Yuan*

| Items | Year 2015 | Year 2014 |
|---------------------|------------------|------------------|
| Annual Remuneration | 7,335,200.00 | 6,882,000.00 |

(8) Other related party transaction

6. Receivables and payables for and from affiliated party

(1) Receivables

Unit: Yuan

| Name of project | Associated Party | Ending balance | | Beginning balance | |
|---------------------------|--|----------------|------------------------|-------------------|------------------------|
| | | Book balance | Provision for bad debt | Book balance | Provision for bad debt |
| Accounts receivable | Chengdu Westone | 109,409.89 | 16,411.48 | 109,409.89 | 5,470.49 |
| Accounts receivable | China Electric Power Research Institute | 224,862.17 | 28,997.80 | 624,913.27 | 13,808.77 |
| Accounts receivable | CETC 28th Research Institute | 20,232,141.91 | 1,730,539.72 | 46,345,696.45 | 1,402,953.44 |
| Accounts receivable | CETC 27th Research Institute | 160,000.50 | 3,262.96 | 15,293.33 | 683.79 |
| Accounts receivable | CETC 20th Research Institute | 801,936.27 | 39,853.45 | 792,201.68 | 19,805.04 |
| Accounts receivable | Hikvision | 16,873,244.40 | 386,717.97 | | |
| Accounts receivable | CETC 10th Research Institute | 404,785.95 | 20,239.30 | 404,785.95 | 10,119.65 |
| Accounts receivable | CETC 15th Research Institute | 34,688,466.39 | 1,787,675.24 | 17,113,483.35 | 1,899,547.98 |
| Accounts receivable | CETC 11th Research Institute | 538,963.91 | 59,107.30 | 634,180.98 | 25,280.22 |
| Accounts receivable | Taiji Ao'Tian | 84,000.00 | 12,600.00 | 84,000.00 | 4,200.00 |
| Accounts receivable | Taiji Xianxing | 5,000.00 | 5,000.00 | 5,000.00 | 5,000.00 |
| Accounts receivable | Tianbo/Engineering | | | 72,951.05 | 3,647.55 |
| Accounts receivable | CETC 53th Research Institute | 51,374.04 | | | |
| Accounts receivable | CETC 54th Research Institute | 821,008.33 | 15,020.13 | 300,402.69 | 7,510.07 |
| Accounts receivable | CETC | 300,000.00 | | | |
| Accounts receivable | Subsidiary of Equipment | 167,500.00 | | | |
| Accounts receivable | CETC Academy of Science Information Innovation | 573,141.96 | | | |
| Notes receivable | CETC 15th Research Institute | 36,350,000.00 | | | |
| Notes receivable | CETC 28th Research Institute | 4,460,250.00 | | | |
| Advance payment | CETC 34th Research Institute | 5,947.70 | | 5,947.70 | |
| Advance payment | Hikvision | 74,655.00 | | 625,897.00 | |
| Other accounts receivable | CETC 15th Research Institute | 1,682,000.00 | 148,300.00 | 1,600,000.00 | 56,750.00 |
| Other accounts receivable | CETC 10th Research Institute | 20,000.00 | 7,000.00 | 20,000.00 | 3,000.00 |
| Other accounts receivable | Hikvision | 1,281,484.05 | 64,074.20 | | |
| Other accounts receivable | CETC Ocean Information Technology Research Institute Co., Ltd. | 10,000.00 | 250.00 | | |

(2) Project payable

Unit: Yuan

| Name of project | Associated Party | Ending book balance | Beginning book balance |
|---------------------------|---|---------------------|------------------------|
| Accounts receivable | Hikvision | 3,750,000.40 | 1,832,571.30 |
| Accounts receivable | The 15th Research Institute | 2,251,358.72 | 19,412,586.75 |
| Accounts receivable | Hikvision | 46,959,239.54 | |
| Accounts receivable | Chengdu Westone | 1,594,000.00 | 1,594,000.00 |
| Accounts receivable | Zunguan Science & Technology | | 200,000.00 |
| Accounts receivable | Kingbase (Beijing) | 80,000.00 | 29,106.00 |
| Accounts receivable | Huaxing Taiji | 103,200.00 | |
| Accounts receivable | Shenzhen GUOXINAN | 90,260,000.00 | |
| Advance payment | China Electric Power Research Institute | 886,796.64 | 2,227,852.77 |
| Advance payment | CETC 28th Research Institute | 70,013,206.40 | 50,184,128.43 |
| Advance payment | CETC 22th Research Institute | 7,638.95 | |
| Advance payment | CETC 27th Research Institute | 236,704.15 | 177,800.00 |
| Advance payment | Ocean Information Technology Research Institute Co., Ltd. | 8,771,867.43 | |
| Advance payment | CETC 34th Research Institute | 5,454.76 | 5,454.76 |
| Advance payment | CETC 3th Research Institute | 3,589.74 | 190,651.03 |
| Advance payment | CETC 10th Research Institute | 529,914.53 | |
| Advance payment | CETC 15th Research Institute | 59,728,472.51 | 20,610,717.89 |
| Advance payment | CETC 11th Research Institute | 148,970.52 | 545,895.24 |
| Advance payment | CETC 52th Research Institute | 13,209.47 | |
| Advance payment | CETC 54th Research Institute | 559,267.09 | 453,838.91 |
| Advance payment | Changjiang Data | 16,605.82 | 16,605.82 |
| Advance payment | CETC | 7,049,372.27 | 9,797,218.19 |
| Advance payment | Subsidiary of Equipment | 90,000.00 | |
| Advance payment | Far East Harris | | 74,818.64 |
| Advance payment | Huabei Property Management | 27,438.28 | 27,438.28 |
| Advance payment | Kingbase (Beijing) | 7,906.81 | 2,264.15 |
| Advance payment | Chengdu Westone | 13,483.76 | |
| Advance payment | Hikvision | 7,474,044.07 | |
| Advance payment | CETC Academy of Science Information Innovation | 975,055.00 | 317,327.17 |
| Advance payment | Finance Company | 243,214.46 | |
| Other accounts receivable | CETC 15th Research Institute | 15,663,436.54 | 15,713,458.47 |
| Other accounts receivable | CETC 28th Research Institute | 30,000.00 | |
| Other accounts receivable | CETC 33th Research Institute | 110,000.00 | 110,000.00 |
| Other accounts receivable | China Electric Power Research Institute | 2,169,000.00 | |
| Other accounts receivable | CETC 23th Research Institute | | 200,000.00 |
| Other accounts receivable | Taiji Xianxing | 40.93 | 40.93 |
| Other accounts receivable | Taiji Huaneng | 6,552.00 | |

7. Commitments of Associated transactions

8. Other

XIII. SHARE-BASED PAYMENT

1. Overall condition of share-based payment

Applicable Inapplicable

Unit: Yuan

| | |
|---|---|
| Total amount of the Company's granted various equity instruments in current period | 2,653,074.00 |
| Total amount of the Company's exercised various equity instruments in current period | 0.00 |
| Total amount of the Company's lapsed various equity instruments in current period | 0.00 |
| Company's end of term issued stock option exercise price scope and contract's residual period | <p>(1) According to Taiji Shares's Announcement of board of directors dated on Feb. 12, 2015, the Company granted restricted stock to the inventive objects on Feb. 11, 2015.</p> <p>(2) Taiji Shares's restricted stock incentives plan is intended to be unlocked in three times, respectively after 24 months, 36 months and 48 months. The restricted shares' proportions of each unlocking are respectively 1/3, 1/3 and 1/3 of the granted total.</p> <p>(3) Unlocking performance condition is restricted shares incentives plan is Taiji Shares compared to 2013. In 2016, 2017 and 2018, the Company's net profit compound growth rates after having deducted non-recurring profits and losses are respectively no less than 20%, 20% and 20%.</p> |

Company's end of term issued other equity instruments' exercise price scope and contract's residual period No

Other Notes

2. Information for share-based payment settled in equity

Applicable Inapplicable

Unit: Yuan

| | |
|---|--|
| Determination of equity instrument's fair value on the grant date | Black-Scholes (B-S) option pricing model |
| Determination basis of exercisable equity instrument quantity | This incentives plan granted objects are based on "Corporation Law", "Securities Law", "Pilot Method for State Holding Listed Company (Domestic) to Implement Stock Option Incentives", "Notice on Relevant Problems of Regulating State Holding Listed Company to Implement Stock Option Incentives System", "Regulations", other state-owned assets supervision and administration commission and securities regulatory commission related laws, regulations and normative documents' regulations and relevant regulations of "Articles of Association", and are decided by combining with the company's actual condition. |
| Reason that the estimation of current period has big difference from estimation of prior period | No |
| Total amount of share-based payment settled in equity included in capital reserve | 11,151,317.00 |
| Total expense confirmed by share-based payment settled in equity in current period | 11,151,317.00 |

3. Information for share-based payment settled in cash

Applicable Inapplicable

Unit: Yuan

Determination method of fair value of the
Company borne and calculated liabilities
on the basis of shares or other equity
instruments

Accumulative liability amount generated by
share-based payment settled in cash in
liabilities

Total expense confirmed by share-based
payment settled in cash in current period

Other Notes

4. Information for changing, terminating share-based payment

None.

5. Other**XIV.COMMITMENTS AND CONTINGENCIES****1. Important commitments**

Important commitments on the date of balance sheet date

None.

2. Contingencies

(1) Important contingencies on the date of balance sheet date

(2) The Company should describe there are no important contingencies to be disclosed

The Company has no important contingencies to be disclosed.

3. Other

XV. MATTERS AFTER THE DATE OF BALANCE SHEET DATE

1. Important non-adjusting matters

Unit: Yuan

| Restricted stock plan | Restricted stock plan | Restricted stock plan | Restricted stock plan |
|--|------------------------------|------------------------------|------------------------------|
| Distribution of shares and bonds | | | |
| Important investments abroad | | | |
| Important debt restructuring | | | |
| Natural disaster | | | |
| Important variation of foreign exchange rate | | | |

2. Information for distribution of profits

Unit: Yuan

| | |
|--|---------------|
| Intended to distribute profits or dividends | 62,339,584.05 |
| Reviewed, approved, and announced to be distributed profits or dividends | 62,339,584.05 |

3. Sales return

4. Other matters described after the date of balance sheet date

XVI. OTHER IMPORTANT MATTERS

1. Correction of accounting error in previous period

*(1) Retrospective restatement**Unit: Yuan*

| | Treatment procedure | Name of project in each affected comparing periods | Cumulative effects |
|---------------------------------------|----------------------------|---|---------------------------|
| Correction of accounting error | | | |

(2) Prospective application method

| | Approval procedure | Reason for adopting prospective application method |
|---------------------------------------|-----------------------|--|
| Correction of accounting error | | |

2. Debt restructuring**3. Assets exchange***(1) Non-monetary assets exchange*

Note: for non-monetary assets exchange, category, cost determination method and fair value of assets to be exchanged, category, book value and fair value of assets to exchange as well as non-monetary assets exchange confirmed profits and losses shall be disclosed.

(2) Other assets exchange

Note: describe the condition of important assets' replacement, transfer and selling, including assets' book value, transfer amount, influence to financial condition and operating results, cause of transfer, etc.

4. Pension plan

Note: describe the main contents and important change of pension plan.

5. Discontinuing operation

Unit: Yuan

| Items | Income | Cost | Total profit | Income tax expense | Retained profits | Profits generated from discontinuing operation attributable to the parent |
|-------------|--------|------|--------------|-----------------------|---------------------|--|
| Other note: | | | | | | |

6. Segment information*(1) Basis for determining and accounting policies of reportable segments*

The Group determines operating branches on the basis of internal organizational structure, management requirements and internal reporting system; determine reporting branch and disclose branch information on the basis of operating branches. The operating branch refers to the Group's constituent parts which simultaneously meet the following conditions: (1)

This constituent part can produce income and incur expenses in daily activities; (2) The Group's management level can regularly evaluate the operating results of the constituent part so as to decide to configure resources to it and evaluate its performance; (3) The Group can obtain relevant accounting information such as financial condition, operating results and cash flow of the constituent part. If two or more operating branches are possessed of similar economic characteristics and meet certain conditions, they can be merged into one operating branch.

The Group considers the materiality principle and decides reporting branch on the basis of operating branches. The Group's reporting branch is a business unit which provides different products or services, or operates in different regions. As various businesses or regions need different technologies and market strategies, the Group respectively and independently manage the production and operating activities of each reporting branch, and respectively evaluate the operating results so as to decide to configure resource to it and evaluate its performance.

The Group has 2 reporting branches, which are respectively:

System Integration Branch: responsible for providing industry solutions and services, IT product value-added services;

IT Consulting and Software Development Branch: responsible for developing and selling software products and relevant services.

Transfer price between branches is determined by referring to the price used for selling to the third party. Assets are configured according to the operation of branches and asset locations; liabilities are distributed according to the operation of branches; expenses which indirectly belong to each branch are distributed among branches according to the proportion of income.

*(2) Financial information of reportable segments**Unit: Yuan*

| | System integration Branch | Software Development Branch | Offsets among branches | Total |
|---|--|--|-----------------------------------|------------------|
| External transaction income | 4,564,459,343.82 | 265,027,826.71 | | 4,829,487,170.53 |
| Transaction income among branches | | 15,739,581.60 | 15,739,581.60 | |
| Interest income | 4,712,923.35 | 575,693.09 | | 5,288,616.44 |
| Interest expense | 7,084,042.34 | 2,932,774.35 | | 10,016,816.69 |
| Investment income from joint ventures | 1,115,132.58 | | | 1,115,132.58 |
| Assets impairment loss | 38,880,764.80 | 2,814,641.25 | | 41,695,406.05 |
| Depreciation expense and amortization charge | 31,402,647.05 | 4,844,152.74 | 2,136.75 | 36,244,663.04 |
| Total profits | 197,897,230.24 | 56,607,976.64 | 15,737,444.85 | 238,767,762.03 |
| Income tax expense | 30,794,711.53 | 6,795,513.63 | | 37,590,225.16 |
| Net profit | 151,365,073.86 | 49,812,463.01 | | 201,177,536.87 |
| Total asset | 5,360,118,758.80 | 455,246,171.02 | 8,859,732.90 | 5,806,505,196.92 |
| Total asset | 3,458,321,650.40 | 179,774,846.32 | 8,605,459.38 | 3,629,491,037.34 |
| Other non-cash expenses other than depreciation expense and amortization charge | | | | |
| Long-term equity investment to joint ventures | 173,240,370.63 | | | 173,240,370.63 |
| Other non-current assets increases other than long-term equity investment | 244,140,415.59 | 54,018,675.50 | | 298,159,091.09 |

(3) If the Company has no reportable segments or cannot disclose total assets and liabilities of each reportable segments, the Company should explain the reason.

(4) Other note

7. Other important transaction and matter which influence the decision of investor

8. Other None.

XVII. NOTES TO MAIN ITEMS IN THE PARENT COMPANY FINANCIAL STATEMENTS

1. Accounts receivable

(1) Disclosure of accounts receivable on classification

Unit: Yuan

| Classification | Book balance | | Ending balance | | | Book balance | | Beginning balance | | |
|--|-------------------------|----------------|------------------------|--------------|-------------------------|-------------------------|----------------|------------------------|--------------|-------------------------|
| | Amount | Proportion | Provision for bad debt | | Book value | Amount | Proportion | Provision for bad debt | | Book value |
| | | | Amount | Proportion | | | | Amount | Proportion | |
| Receivables whose single amount is significant and separately requires provision for bad debt | | | | | | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 1,681,684,329.21 | 100.00% | 148,177,738.68 | 8.81% | 1,533,506,590.53 | 1,265,957,439.97 | 100.00% | 112,654,786.39 | 8.90% | 1,153,302,653.58 |
| Receivables whose single amount is not significant but separately requires provision for bad debt | | | | | | | | | | |
| Total | 1,681,684,329.21 | 100.00% | 148,177,738.68 | 8.81% | 1,533,506,590.53 | 1,265,957,439.97 | 100.00% | 112,654,786.39 | 8.90% | 1,153,302,653.58 |

Accounts receivable with significant single amount and provision for bad debt individually at the end

Applicable Inapplicable

Unit: Yuan

| Receivables (in unit) | Receivables | Ending balance | | Reason of provision |
|-----------------------|-------------|------------------------|-------------------------|---------------------|
| | | Provision for bad debt | Proportion of provision | |
| | | | | |
| Total | | | | |

The accounts receivable accrued for provision of bad debt by age analysis method in portfolio:

Applicable Inapplicable

Unit: Yuan

| Age | Accounts receivable | Ending balance Provision for bad debt | Proportion of provision |
|---------------------------------|-------------------------|---|----------------------------|
| Within 1 year | | | |
| 0–6 months (including 6 months) | 890,995,638.26 | | |
| 7–12 months | 184,989,246.27 | 4,624,731.15 | 2.50% |
| Subtotal | 1,075,984,884.53 | 4,624,731.15 | |
| 1–2 years | 264,855,434.29 | 13,242,771.71 | 5.00% |
| 2–3 years | 127,544,856.17 | 19,131,728.42 | 15.00% |
| Over 3 years | | | |
| 3–4 years | 69,308,161.98 | 24,257,856.68 | 35.00% |
| 4–5 years | 28,160,650.19 | 22,528,520.14 | 80.00% |
| Over 5 years | 64,392,130.58 | 64,392,130.58 | 100.00% |
| Total | <u>1,630,246,117.74</u> | <u>148,177,738.68</u> | <u>9.09%</u> |

Details for confirmation of this portfolio:

The accounts receivable accrued for provision of bad debt by the percentage of balance method in portfolio:

Applicable Inapplicable

Unit: Yuan

| Name of portfolio | Accounts receivable | Ending balance Provision for bad debt | Proportion of provision |
|-------------------|---------------------|---|----------------------------|
| | _____ | _____ | _____ |
| Total | ===== | ===== | ===== |

The accounts receivable accrued for provision of bad debt by other method in portfolio:

| Name of portfolio | Accounts receivable | Ending balance Provision for bad debt | Proportion of provision |
|---------------------------|-----------------------------|---|----------------------------|
| Related party combination | <u>51,438,211.47</u> | _____ | _____ |
| Total | <u><u>51,438,211.47</u></u> | <u>_____</u> | <u>_____</u> |

(2) *Bad debt recovery and bad debt allowance*

This year, the total of provision for bad debt is 35,522,952.29 Yuan; and the total amount of bad debt recovery is 0.00 Yuan.

Including, significant recovered amount in this year:

Unit: Yuan

| Name of company | Recovered amount | Recovery method |
|-----------------|---------------------|-----------------|
| Total | <u>0.00</u> | _____ |

(3) *No write-off of bad debts occurred during this fiscal year*

Unit: Yuan

Item **Write-off amount**

Including, information for writing off significant accounts receivable:

Unit: Yuan

| Name of company | Nature of receivables | Write-off amount | Reason | Write-off procedure | Whether the amount is caused by associated transactions |
|-----------------|--------------------------|---------------------|--------------|------------------------|---|
| | _____ | _____ | _____ | _____ | _____ |
| Total | <u>_____</u> | <u>_____</u> | <u>_____</u> | <u>_____</u> | <u>_____</u> |

Details of writing off accounts receivable:

(4) *Information for the ending balance of top 5 accounts receivable sorted by the debtor*

The total ending balance of top 5 accounts receivable is 241,718,799.20 Yuan, accounting for 14.37% of the total ending balance of accounts receivable, the total amount of corresponding provision for bad debt is 0.00 Yuan.

(5) *Accounts receivable derecognized because of transfer of financial assets*

None.

(6) *Amount of assets or liabilities for which accounts receivable is transferred but continue involve in*

2. Other accounts receivable

(1) *Disclosure of other accounts receivable on classification*

Unit: Yuan

| Classification | Book balance | | Ending balance Provision for bad debt | | Book value | Book balance | | Beginning balance Provision for bad debt | | Book value |
|--|-----------------------|----------------|--|----------------------------|-----------------------|-----------------------|----------------|---|----------------------------|-----------------------|
| | Amount | Proportion | Amount | Proportion of provision | | Amount | Proportion | Amount | Proportion of provision | |
| | | | | | | | | | | |
| Receivables whose single amount is significant and separately requires provision for bad debt | | | | | | | | | | |
| Accounts receivable with provision for bad debts as per the portfolio of credit risk characteristics | 544,962,939.08 | 100.00% | 23,926,740.19 | 4.39% | 521,036,198.89 | 216,608,702.81 | 100.00% | 26,223,275.74 | 12.11% | 190,385,427.07 |
| Receivables whose single amount is not significant but separately requires provision for bad debt | | | | | | | | | | |
| Total | 544,962,939.08 | 100.00% | 23,926,740.19 | 4.39% | 521,036,198.89 | 216,608,702.81 | 100.00% | 26,223,275.74 | 12.11% | 190,385,427.07 |

Other accounts receivable with significant single amount and provision for bad debt individually at the end:

Applicable Inapplicable

Unit: Yuan

| Receivables (in unit) | Ending balance | | | Reason of provision |
|-----------------------|-------------------|------------------------|----------------------|---------------------|
| | Other receivables | Provision for bad debt | Provision proportion | |
| Total | — | — | | |

The accounts receivable accrued for provision of bad debt by age analysis method in portfolio:

Applicable Inapplicable

Unit: Yuan

| Account age | Ending balance | | Withdrawal proportion |
|-------------------------|-----------------------|------------------------|-----------------------|
| | Other receivables | Provision for bad debt | |
| Sub-item within 1 year | | | |
| Within 1 year | 85,201,537.09 | 2,130,038.42 | 2.50% |
| Sub-total within 1 year | 85,201,537.09 | 2,130,038.42 | 2.50% |
| 1-2 year(s) | 21,298,514.77 | 1,064,925.74 | 5.00% |
| 2-3 years | 8,219,323.25 | 1,232,898.49 | 15.00% |
| More than 3 years | | | |
| 3-4 years | 8,964,593.32 | 3,137,607.66 | 35.00% |
| 4-5 years | 700,266.00 | 560,212.80 | 80.00% |
| More than 5 years | <u>15,801,057.08</u> | <u>15,801,057.08</u> | <u>100.00%</u> |
| Total | <u>140,185,291.51</u> | <u>23,926,740.19</u> | <u>17.07%</u> |

Description based on when determining this combination:

In this combination, balance percentage method is adopted to set aside other receivable of bad debt provision.

Applicable Inapplicable

Unit: Yuan

| Name of portfolio | Other receivables | Ending balance Provision for bad debt | Provision proportion |
|-------------------|----------------------|---|-------------------------|
| Total | | | |

Description based on when determining this combination:

In this combination, other method is adopted to withdraw bad debt provision for other receivable.

Applicable Inapplicable

| Name of portfolio | Other account receivable | Ending balance Provision for bad debt | Proportion of provision |
|--|-----------------------------|---|----------------------------|
| Transaction object relationship portfolio | 28,010,828.92 | | |
| Nature portfolio | 376,766,818.65 | | |
| Total | 404,777,647.57 | | |

(2) Bad debt recovery and bad debt allowance in this year

This year, the amount of provision for bad debt is 2,296,535.55 Yuan; the recovered amount is 0.00 Yuan. Including, significant recovered amount:

Unit: Yuan

| Name of company | Recovered amount | Recovery method |
|--|--------------------------|------------------------|
| Suining City River Channel Management Office | 317,089.35 | Monetary capital |
| Shanghai High People's Court | <u>638,872.50</u> | Monetary capital |
| Total | <u><u>955,961.85</u></u> | — |

(3) Details of writing off other receivables

Unit: Yuan

| Items | Write-off amount |
|--------------|-------------------------|
|--------------|-------------------------|

Of which, details of writing off significant receivables:

Unit: Yuan

| Name of company | Nature of other accounts receivable | Write-off amount | Reason | Write-off procedure | Amount from associated transaction |
|------------------------|--|-------------------------|---------------|----------------------------|---|
| | _____ | _____ | _____ | _____ | _____ |
| Total | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

Details of writing off other accounts receivable:

(4) Other accounts receivable sorted by nature

Unit: Yuan

| Nature | Ending book balance | Beginning book balance |
|------------------------|-----------------------|------------------------|
| Revolving fund | 28,010,828.92 | 20,892,476.02 |
| Affiliate's portfolio. | 376,766,818.65 | 52,442,422.95 |
| Cash deposit | <u>140,185,291.51</u> | <u>143,273,803.84</u> |
| Total | <u>544,962,939.08</u> | <u>216,608,702.81</u> |

(5) Top 5 ending balance of other accounts receivable sorted by the debtor

Unit: Yuan

| Name of company | Nature | Ending balance | Age | Proportion in total ending balance of other accounts receivable | Ending balance of provision for bad debt |
|---|--------------------|-----------------------|----------------------|---|--|
| Beijing Information Resource Management Center | Financial dealings | 375,003,770.70 | Within 1 year | 68.79% | |
| Dongcheng District Public Security Bureau, Beijing Municipal Public Security Bureau | Performance bond | 5,441,440.90 | 7-12 months | 1.00% | 136,036.02 |
| China Cronicon Import and Export Corporation | Guarantee deposit | 4,443,603.75 | Over 5 years | 0.82% | 4,443,603.75 |
| Guoxin Tendering Group Co., Ltd. | Tender bond | 3,537,000.00 | 0-6 months | 0.65% | 89,300.00 |
| Beijing Disabled Persons' Federation Information Center | Performance bond | <u>3,339,440.00</u> | <u>Within 2 year</u> | <u>0.61%</u> | <u>137,892.00</u> |
| Total | — | <u>391,765,255.35</u> | — | <u>71.86%</u> | <u>4,806,831.77</u> |

*(6) Accounts receivables involving in government grants**Unit: Yuan*

| Name of company | Name of government grant project | Ending balance | Ending age | Estimated recovery time, amount and base |
|-----------------|--|-------------------|------------|---|
| Total | — | — | — | — |

(7) Other accounts receivable derecognized because of transfer of financial assets

None.

(8) Amount of assets or liabilities for which other accounts receivable is transferred but continue involve in

None.

Other note:

3. Long-term equity investment*Unit: Yuan*

| Items | Ending balance | | | Beginning balance | | |
|--|-----------------------|---|-----------------------|-----------------------|--|-----------------------|
| | Book balance | Ending balance Impairment provision | Book value | Book balance | Beginning balance Impairment provision | Book value |
| Investment in subsidiary | 646,449,206.16 | | 646,449,206.16 | 576,349,206.16 | | 576,349,206.16 |
| Investment in affiliated and cooperative enterprise | <u>173,240,370.63</u> | | <u>173,240,370.63</u> | <u>112,771,391.45</u> | | <u>112,771,391.45</u> |
| Total | <u>819,689,576.79</u> | | <u>819,689,576.79</u> | <u>689,120,597.61</u> | | <u>689,120,597.61</u> |

(1) Investment in subsidiary

Unit: Yuan

| The invested unit | Beginning balance | Increase in 2015 | Decrease in 2015 | Ending balance | Impairment provision in this year | Ending balance of impairment provision |
|---|-------------------|------------------|------------------|----------------|-----------------------------------|--|
| Beijing Taiji Information System Technology Co., Ltd. | 5,000,000.00 | | | 5,000,000.00 | | |
| Beijing Taiji Network Technology Co., Ltd. | 50,459,200.00 | 10,000,000.00 | | 60,459,200.00 | | |
| Shenzhen Taiji Building Technology Co., Ltd. | 400,000.00 | | | 400,000.00 | | |
| Taiji Computer (Xi'An) Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | | |
| Beijing Taiji Cloud Computer Technology Development Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | | |
| Hainan Taiji Information Technology Co., Ltd. | 10,000,000.00 | | | 10,000,000.00 | | |
| Beijing Smartdot Science and Technology Ltd. | 490,490,006.16 | | | 490,490,006.16 | | |
| Jilin Taiji Computer Co., Ltd. | | 10,100,000.00 | | 10,100,000.00 | | |
| Taiji Zhilv Information Technology Co., Ltd. | | 50,000,000.00 | | 50,000,000.00 | | |
| Total | 576,349,206.16 | 70,100,000.00 | | 646,449,206.16 | | |

(2) Investment in affiliated and cooperative enterprise

Unit: Yuan

| Investing company | Beginning balance | Additional investment | Negative investment | Increase/decrease in current period | | | | Impairment provision | Other | Ending balance | Impairment provision Ending balance |
|--|-------------------|-----------------------|---------------------|--|--------------------------------------|------------------------|------------------------------------|----------------------|-------|----------------|-------------------------------------|
| | | | | Profit and loss on investments under equity method | Adjusting other comprehensive income | Change in other equity | Declaring cash dividends or profit | | | | |
| I. Cooperative enterprises | | | | | | | | | | | |
| Beijing Taiji AoTian Technology Co., Ltd. | 59,953,468.00 | | | -106,105.67 | | | | | | 59,847,362.33 | |
| Subtotal | 59,953,468.00 | | | -106,105.67 | | | | | | 59,847,362.33 | |
| II. Affiliated business | | | | | | | | | | | |
| Beijing Kingbase Information Technologies Inc. | 52,423,363.22 | | | 349,467.77 | | | | | | 52,772,830.99 | |
| Sinkiang Intelligence R&D Center | 394,560.23 | | | -206,927.43 | | | | | | 187,632.80 | |
| Shenzhen Apusic Co., Ltd. | | 58,800,000.00 | | 1,078,697.91 | | 553,846.60 | | | | 60,432,544.51 | |
| Subtotal | 52,817,923.45 | 58,800,000.00 | | 1,221,238.25 | | 553,846.60 | | | | 113,393,008.30 | |
| Total | 112,771,391.45 | 58,800,000.00 | | 1,115,132.58 | | 553,846.60 | | | | 173,240,370.63 | |

6. Other

XVIII. SUPPLEMENTARY INFORMATION

1. Details of non-recurring profit and loss of current period

√ Applicable Inapplicable

Unit: Yuan

| Items | Amount | Description |
|---|----------------------|-------------|
| Profit or loss from disposal of non-current assets | 2,137,441.67 | |
| The government subsidies included in the current profits and losses (except that the government subsidiary is closely related with normal business of the company but is based on standard quota or quantitative continuous enjoyment according to the state industrial policy. | 33,587,136.47 | |
| Fund possession cost included in current profits and losses, charged to non-financial business | | |
| Where enterprise obtained investment income from subsidiaries and joint ventures is less than obtained investment, it shall enjoy the invested company net identifiable assets fair value produced income | | |
| Non-monetary assets exchange profits and losses | | |
| Profits and losses by entrusting other people to invest or manage assets | | |
| Each assets impairment provision withdrawn due to force majeure, for example, suffering from natural disaster | | |
| Debt restructuring profits and losses | | |
| Enterprise restructuring expense, for example, expenditure and consolidation expense, etc. for staffing | | |
| Transaction whose transaction price having lost fairness produced profits and losses which exceeds fair value | | |
| Enterprises under the same control merger generated subsidiary current net profits and losses from start of term to the merger day | | |
| Profits and losses irrelevant with the Company's normal business or generated from matters | | |
| Except for effective hedging business related to the Company's normal business, fair value variation profits and losses produced by holding trading financial assets and trading financial liabilities, and investment income obtained from disposing trading financial assets, trading financial liabilities and available-for-sale financial assets | 229,000.00 | |
| Impairment provision of receivables which separately conduct impairment test is transferred back | | |
| Profits and losses obtained from external entrust loans | | |
| Profits and losses generated from investment real estate fair value variation subject to subsequent measurement by adopting fair value mode | | |
| Influence of carrying out one-time adjustment to current profits and losses according to the requirement of laws and regulations for tax, accounting, etc. | | |
| Trustee fee obtained from entrusted operation | | |
| Income and expenditure other than from operations of abovementioned items | 7,907,048.25 | |
| Other profit and loss items which meet the definition of non-recurring profits and losses | | |
| Less: Influence of income tax | 5,548,293.11 | |
| Influence of minority equity | 275,153.25 | |
| Total | <u>38,037,180.03</u> | <u>—</u> |

The Company defines non-recurring profit and loss according to the definition in Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss and classifies non-recurring profit and loss listed in Explanatory Announcement No.1 on Information Disclosure of Companies Offering Their Securities to the Public — Non-recurring Profit and Loss as non-recurring profit and loss, please explain the reason.

Applicable Inapplicable

| Item | Involved amount (RMB) | Reason |
|-----------------------------|--------------------------|---|
| Software product tax refund | 12,939,430.07 | According to the regulations of Taxation [2011] No. 100 document, for the Company selling self-developed software products, the part of value-added tax actual tax exceeds 3% shall be refundable. This policy is closely related to the Group's business, which doesn't belong to special property or occasional matter. |

2. Net return on assets and earnings per share

| Net profit in reporting period | Weighted average net return on assets | Earnings per share | |
|---|--|---|---|
| | | Basic earnings per share (Yuan/ share) | Diluted earnings per share (Yuan/ share) |
| Net profit attributable to common Net profit attributable to common | 9.57% | 0.4895 | 0.4856 |
| Net profit attributable to common stockholder of the company after deducting non-recurring Profit or loss | 7.77% | 0.3971 | 0.3939 |

3. Differences of accounting data in financial reports prepared under overseas and Chinese accounting standards

(1) Differences of net profit and net assets disclosed in financial reports prepared under IAS and Chinese accounting standards

Applicable Inapplicable

Unit: Yuan

| | Net profit | | Net asset | |
|--|--------------------------------------|------------------------------------|------------------|---------------------|
| | Amount incurred in current period | Amount incurred in prior period | Ending amount | Beginning amount |
| According to Chinese accounting standards | 201,500,262.30 | 195,715,505.34 | 2,150,140,208.26 | 1,997,889,042.28 |
| Item and amount adjusted according to IAS | | | | |
| According to IAS | | | | |

(2) Differences of net profit and net assets disclosed in financial reports prepared under oversea and Chinese accounting standards

Applicable Inapplicable

Title of offshore accounting standards:

Unit: Yuan

| | Net profit | | Net asset | |
|---|--------------------------------------|------------------------------------|------------------|---------------------|
| | Amount incurred in current period | Amount incurred in prior period | Ending amount | Beginning amount |
| According to Chinese accounting standards | 201,500,262.30 | 195,715,505.34 | 2,150,140,208.26 | 1,997,889,042.28 |
| Item and amount adjusted according to offshore accounting standards | | | | |
| Overseas Accounting Standards | | | | |

(3) Reason for differences of accounting data in financial reports prepared under overseas and Chinese accounting standards, if the difference adjustment has been carried out for the data audited by oversea audit institution, the name of oversea audit institution should be specified.

4. Other

The above 2013 TC Annual Report, the 2014 TC Annual Report and the 2015 TC Annual Report have been published on the website of CNINF (<http://www.cninfo.com.cn>). The accounting policies of Taiji Computer in each of the 2013 TC Financial Statements, the 2014 TC Financial Statements and the 2015 TC Financial Statements are materially consistent with those used by the Company in its audited consolidated financial statements..

The following financial information of Taiji Computer was not disclosed in the 2013 TC Annual Report, the 2014 TC Annual Report and the 2015 TC Annual Report but included in this circular to provide further information to the Shareholders:

I. Accounts payable as at 31 December 2013

(a) Details about accounts payable

| Item | Balance at the end of the year | Balance in the beginning of the year |
|-------------------------|-----------------------------------|--|
| Project bills payable | 603,297,270.75 | 374,251,422.45 |
| Commodity bills payable | <u>40,351,814.37</u> | <u>40,833,583.19</u> |
| Total | <u><u>643,649,085.12</u></u> | <u><u>415,085,005.64</u></u> |

(b) Explanation on large accounts payable that are payable over a term exceeding one year

| Debtor | Balance | Outstanding reasons | Returned after the date of the report |
|-----------------------|-----------------------------|--------------------------|---|
| 四川長虹佳華數字技術有限公司 | 8,026,621.86 | Construction in progress | Yes |
| 北京天祐路通信息工程技術有限公司 | 4,140,169.15 | Construction in progress | No |
| 科大國創軟件股份有限公司 | 3,262,995.60 | Construction in progress | No |
| 北京東晨盛世建築工程有限公司 | 2,963,864.19 | Construction in progress | No |
| 南京磐天科技有限公司 | 2,072,649.33 | Construction in progress | No |
| 同方泰德國際科技(北京)有限公司 | 2,034,049.01 | Construction in progress | No |
| 寧波鼎興盛發信息技術有限公司 | 1,883,385.37 | Construction in progress | No |
| 北明軟件有限公司 | 1,876,966.10 | Construction in progress | No |
| 四川長虹佳華信息產品有限責任公司 | 1,827,500.00 | Construction in progress | No |
| 寧波經濟開發區金盾安全技防工程工程有限公司 | 1,810,085.62 | Construction in progress | No |
| 北京曉通網絡科技有限公司 | 1,685,372.00 | Construction in progress | No |
| 廣州怡光信息工程工程有限公司 | 1,671,836.61 | Construction in progress | No |
| 北京斯普林特系統工程技術有限公司 | <u>1,500,000.00</u> | Construction in progress | No |
| Total | <u><u>34,755,494.84</u></u> | | |

(c) Age analysis of accounts payable as at 31 December 2013:

| Item | Balance at the end of the year |
|---------------|-----------------------------------|
| Within 1 year | 551,169,455.25 |
| 1 to 2 years | 59,501,513.62 |
| 2 to 3 years | 13,984,142.01 |
| 3 to 4 years | 18,993,974.24 |
| 4 to 5 years | |
| Over 5 years | |
| Total | <u><u>643,649,085.12</u></u> |

II. Accounts payable as at 31 December 2014

(a) Details about accounts payable

| Item | Balance as at 31 December 2014 | Balance as at 31 December 2013 |
|-------------------------------------|--------------------------------------|--------------------------------------|
| Commodity bills payable (operating) | 513,578,001.23 | 412,382,640.06 |
| Labour wages payable (operating) | <u>242,786,563.97</u> | <u>231,266,445.06</u> |
| Total | <u><u>756,364,565.20</u></u> | <u><u>643,649,085.12</u></u> |

(b) Important accounts payable that are payable over a term exceeding one year

| Item | Balance at the end of the year | Outstanding reasons or reasons to carry forward |
|---------------|-----------------------------------|--|
| 杭州華三通信技術有限公司 | 9,839,428.05 | Construction in progress |
| 北京卓華信息技術有限公司 | 5,908,500.00 | Construction in progress |
| 深圳市贊融電子技術有限公司 | 3,737,168.99 | Construction in progress |
| 西安雲上企業管理有限公司 | 3,597,082.02 | Construction in progress |
| 廣州怡光信息工程有限公司 | <u>3,381,836.61</u> | Construction in progress |
| Total | <u><u>26,464,015.67</u></u> | |

(c) *Age analysis of accounts payable as at 31 December 2014 (pursuant to the date of the invoice):*

| Item | Balance at the end of the year | Balance in the beginning of the year |
|---------------|---|---|
| Within 1 year | 638,778,874.72 | 617,185,069.45 |
| 1 to 2 years | 73,081,251.73 | 26,464,015.67 |
| 2 to 3 years | 25,359,150.8 | |
| 3 to 4 years | 19,145,287.95 | |
| 4 to 5 years | | |
| Over 5 years | | |
| Total | <u><u>756,364,565.20</u></u> | <u><u>643,649,085.12</u></u> |

III. Accounts payable as at 31 December 2015

(a) *Details about accounts payable*

| Item | Balance at the end of the year | Balance in the beginning of the year |
|-------------------------------------|---|---|
| Commodity bills payable (operating) | 1,156,951,814.75 | 513,578,001.23 |
| Labour wages payable (operating) | <u>307,149,448.29</u> | <u>242,786,563.97</u> |
| Total | <u><u>1,464,101,263.04</u></u> | <u><u>756,364,565.20</u></u> |

(b) *Important accounts payable that are payable over a term exceeding one year*

| Item | Balance at the end of the year | Outstanding reasons or reasons to carry forward |
|-----------------------|-----------------------------------|--|
| 北京卓華信息技術股份有限公司 | 49,647,709.88 | Construction in progress |
| 國際商業機器租賃有限公司 | 30,057,555.00 | Construction in progress |
| 山東乾泰智能科技有限公司 | 8,185,995.03 | Construction in progress |
| 北京庚圖科技有限公司 | 6,188,000.00 | Construction in progress |
| 北京興發展通信網絡技術開發 有限公司 | 5,666,711.60 | Construction in progress |
| 北京億賽通科技發展有限責任 公司 | 5,080,000.00 | Construction in progress |
| 北京星奧科技股份有限公司 | 4,375,000.00 | Construction in progress |
| 上海國際商業機器工程技術有限公司 | 4,258,445.18 | Construction in progress |
| 北京天祐路通信息工程技術有限公司 | <u>4,140,169.15</u> | In progress |
| Total | <u><u>117,599,585.84</u></u> | |

(c) *Age analysis of accounts payable as at 31 December 2015*

| Item | Balance at the end of the year | Balance in the beginning of the year |
|---------------|-----------------------------------|--|
| Within 1 year | 1,293,146,455.91 | 709,275,805.97 |
| 1 to 2 years | 108,070,182.05 | 20,624,743.56 |
| 2 to 3 years | 32,212,202.62 | 26,464,015.67 |
| 3 to 4 years | 30,672,422.46 | |
| 4 to 5 years | | |
| Over 5 years | | |
| Total | <u><u>1,464,101,263.04</u></u> | <u><u>756,364,565.20</u></u> |

MANAGEMENT DISCUSSION AND ANALYSIS OF TAIJI COMPUTER

Set out below is the management discussion and analysis of the Taiji Computer Group for each of the financial years ended 31 December 2013, 2014 and 2015, respectively. The detailed financial information of Taiji Computer is set out in Appendix III to this circular.

I. Liquidity and financial resources

As at 31 December 2013, other cash and cash equivalents of Taiji Computer were guarantee deposits for guarantees and bank drafts. The restricted cash was RMB167,445,620.10, of which times deposits over 3 months amounted to RMB164,767,708.28 and guarantee deposits for guarantees over 3 months amounted to RMB2,677,911.82.

As at 31 December 2014, other cash and cash equivalents of Taiji Computer were guarantee deposits for guarantees and letters of credit. The restricted cash was RMB141,193,022.31, of which time deposits over 3 months amounted to RMB137,250,887.73 and guarantee deposits for guarantees over 3 months amounted to RMB3,942,134.58.

As at 31 December 2015, the remaining balance of the monetary funds of Taiji Computer was RMB1,036,110,881.22, the amount of other monetary funds was RMB29,378,558.02, which were mainly guarantee deposits for guarantees and letters of credit, of which guarantee deposits for guarantees over 3 months amounted to RMB26,211,814.02 (2014: RMB3,942,134.58), the time deposits over 3 months amounted to RMB0 (2014: RMB137,250,887.73).

II. Prospects for new business

Taiji Computer will continue to operate in the hope to become “the best IT service provider in China”. Through integrating national information security, cloud computing and the “Internet +” trend, Taiji Computer will revamp its strategy to implement the “solid foundation, exhibit wings” of “One-body with two-wing” business strategy. Such strategy adheres to customer-centric, value-oriented ideals to further strengthen the industry solutions and services business. At the same time, Taiji Computer can develop self-controlled information security industry, cloud computing and industrial internet.

Taiji Computer is currently at an important period of strategic transformation, Taiji Computer is actively adjusting its industrial structure and intends to build a new period of “hardware and software integration” industrial group. By integrating the industrial situation and Taiji Computer’s strategic vision, Taiji Computer adjusted its development strategy in 2015 in a timely manner and put forward “solid foundation, exhibit wings” development strategy, while focusing on the PRC government policy, national defense, public security, electricity, transportation and other key areas or industries to further strengthen solutions and services, at the same time, it also focuses on cloud computing industrial system to formulate the key IT hardware and software products, and to build an integrated cloud service capabilities for key industries.

III. Significant investment held and their performance

Major subsidiaries and invested companies for the year ended 2013

For 2013, Taiji Computer acquired 91% of the equity interests of Smartdot Technologies Co., Ltd* (北京慧點科技有限公司) to enhance the development of supply chain and core competitiveness.

Major subsidiaries and invested companies for the year ended 2014

For 2014, Taiji Computer did not dispose or acquire any of its subsidiaries.

Major subsidiaries and invested companies for the year ended 2015

In July 2015, Taiji Computer acquired 12% and 9% equity interests in Kingdee Kingdee Middleware Company Limited (“**Kingdee Middleware**”) from Kingdee Software (China) Company Limited and Shenzhen Kingdee Software Peripherals Company Limited respectively at a total consideration of RMB58,800,000. Therefore, Taiji Computer acquired a total of 21% equity interests in Kingdee Middleware. Upon completion of the transfer of equity interests, Taiji Computer became the second largest shareholder of Kingdee Middleware, holding 21% equity interests of Kingdee Middleware.

IV. Details of material acquisitions and disposals

Details of material acquisitions and disposals for the year ended 2013

Expressed in: RMB

| Investment during the reporting period | External Investments | Changes |
|---|--|--|
| | Investment in the same period of last year | |
| 550,490,006.16 | 29,150,000.00 | 1,788.47% |
| | Invested companies | |
| Name of companies | Principal businesses | Approximate percentage of issued share capital owned by Taiji Computer |
| Smartdot Technologies Co., Ltd* (北京慧點科技有限公司) | Development and transfer of computer software technology, internet technology services | 91% |
| Beijing Taiji Aotian Technologies Co., Ltd* (北京太極傲天技術有限公司) | Technology development | 50% |

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON TAIJI COMPUTER

Details of material acquisitions and disposals for the year ended 2014

Expressed in: RMB

| Investment during the reporting period | External Investment Investment in the same period of last year | Changes |
|--|--|---|
| 400,000.00 | 550,490,006.16 | -99.93% |
| | Invested companies | |
| Principal businesses | Principal businesses | Approximate percentage of issued share capital owned by Taiji Computer |
| Xinjiang Zhihui Chengshi Engineering Technologies Research Centre (Limited Company)* (新疆智慧城市工程技术研究中心 (有限公司)) | Information system, management and operation services, engineering technology innovation and technology exchange training | 40.00% |

Details of material acquisition and disposals for the year ended 2015

There was no material acquisition and disposal for the year ended 2015.

V. Discussion on the performance of Taiji Computer

| Item | For the year ended 2015 | For the year ended 2014 | Change |
|--|------------------------------------|------------------------------------|---------------|
| Revenue | 482,948.72 | 425,562.21 | 13.48% |
| Sales expenses | 6,389.76 | 6,781.83 | -5.78% |
| Administrative expenses | 49,245.66 | 40,513.16 | 21.55% |
| Finance costs | 779.56 | -95.96 | 912.41% |
| Investment for research and development | 19,644.98 | 17,165.64 | 14.44% |

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON TAIJI COMPUTER

| Item | For the year ended 2015 | For the year ended 2014 | Change |
|--|----------------------------|----------------------------|-----------|
| Net cash flows generated from operating activities | 24,780.95 | -1,690.65 | 1,565.77% |
| Subtotal of cash inflows generated from investing activities | 277.27 | 32.18 | 761.61% |
| Subtotal of cash outflow from investing activities | 45,452.06 | 13,996.44 | 224.74% |
| Net cash flows from investing activities | -45,174.79 | -13,964.26 | -223.50% |
| Subtotal of cash inflow from financing activities | 74,742.36 | 35,500.00 | 110.54% |
| Subtotal of cash outflows from financing activities | 38,443.29 | 40,190.40 | -4.35% |
| Net cash flows generated from financing activities | 36,299.07 | -4,690.40 | 873.90% |

- (1) Revenue increased by approximately 13.48% compared to the corresponding period, there was a stable growth, which was consistent with the industry development;
- (2) Sales expenses decreased by approximately 5.78% compared to the corresponding period, which was mainly attributable to the decrease in travel expenses;
- (3) Administrative expenses increased by approximately 21.55% compared with the year ended 2014, which was mainly attributable to the increase in labour;
- (4) Finance costs increased by approximately 912.41% compared with the year ended 2014, which was mainly attributable to the increase in short term borrowings;
- (5) The increase in investment for research and development was mainly attributable to Taiji Computer's effort in enhancing its strength in independent research and development, participation or application in various scientific and technological innovation and industrialization projects;
- (6) Net cash flows generated from operating activities increased by approximately 1,565.77% compared to the corresponding period, which was attributable to the increase in receipt of goods and services and other operating-related cash;
- (7) Cash inflows generated from investing activities increased by approximately 761.61% compared to the corresponding period, which was attributable to recovery of investment funds from Yuchang Diandang and disposal of Guangzhou properties;
- (8) Net cash flows from investing activities increased by approximately 224.74% compared to the corresponding period, which was attributable the increase in construction of cloud bases and investment in Kingdee Middleware;

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON TAIJI COMPUTER

- (9) Net cash flows from investing activities decreased by approximately 223.50%, which was attributable to the increase in construction of cloud bases and investment in Kingdee Middleware;
- (10) Cash inflow from financing activities increased by approximately 110.54% compared to the corresponding period, which was attributable to the increase in short term borrowings;
- (11) Cash outflows from financing activities decreased by approximately 4.35% compared to the corresponding period, which was mainly attributable to the decrease in interest rates in 2015 which led to the decrease in the amount of cash for repayment of borrowings;
- (12) Net cash flows generated from financing activities increased by approximately 873.90% compared to the corresponding period, which was attributable to the increase in short term borrowings.

The revenue of the Taiji Computer Group for 2014 was RMB4,255,622,100, which increased by 26.42% as compared to 2013. The revenue of the Taiji Computer Group from its principal businesses were divided into industry solution and services, IT consultation services and value-added value services for IT products. For 2014, the revenue from industry solution and services was RMB3,013,885,400, increased by 26.19% as compared to 2013. The revenue from IT consultation services was RMB249,514,700, increased by 23.83% as compared to 2013. The revenue from value-added services for IT products was RMB992,222,000, increased by 27.78% as compared to 2013.

| Item (Profits and loss) | For the year ended 2014 | For the year ended 2013 | Change (%) |
|---|--------------------------------|--------------------------------|-------------------|
| Revenue | 425,562.21 | 336,637.61 | 26.42% |
| Operating cost | 355,233.60 | 278,846.33 | 27.39% |
| Sales expenses | 6,781.83 | 4,536.05 | 49.51% |
| Administrative expenses | 40,513.16 | 32,271.13 | 25.54% |
| Finance costs | -95.96 | -763.54 | 87.43% |
| Impairment losses of assets | 2,836.98 | 3,058.64 | -7.25% |
| Non-operating income | 3,822.73 | 3,223.08 | 18.60% |
| Non-operating expenses | 38.58 | 171.23 | -77.47% |
| Investment for research and development | 17,165.64 | 12,424.97 | 38.15% |

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON TAIJI COMPUTER

| Item (Cash flow) | For the year ended 2014 | For the year ended 2013 | Change (%) |
|--|--------------------------------|--------------------------------|-------------------|
| Net cash flows generated from operating activities | -1,690.65 | 38,930.98 | -104.34% |
| Net cash flows generated from investing activities | -13,964.26 | -14,210.78 | 1.73% |
| Net cash flows generated from financing activities | -4,690.40 | 11,022.43 | -142.55% |
| | | | |
| Item (Assets and liabilities) | For the year ended 2014 | For the year ended 2013 | Change (%) |
| Accounts receivables | 148,975.61 | 114,051.62 | 30.62% |
| Prepayments | 19,599.13 | 13,634.55 | 43.75% |
| Interest receivables | 703.45 | 361.82 | 94.42% |
| Construction in progress | 1,753.51 | 566.98 | 209.27% |
| Development expenditure | 2,924.28 | 733.56 | 298.64% |
| Short-term loans | 3,500.00 | 2,500.00 | 40.00% |
| Notes payable | 5,089.48 | 12,201.67 | -58.29% |

Changes in financial indicators:

- (1) Revenue increased by approximately 26.42%, which was mainly attributable to the Taiji Computer Group's market expansion, leading to steady increase in revenue.
- (2) Operating cost increased by approximately 27.39%, which was mainly attributable to the increase in the Taiji Computer Group's revenue leading to corresponding increase in operating cost.
- (3) Sales expenses increased by approximately 49.51%, which was mainly attributable to market expansion and increase in labour.
- (4) Administrative expenses increased by approximately 25.54%, which was mainly attributable to increase in labour and investment for research development.
- (5) Finance costs increased by approximately 87.43%, which was mainly attributable to increase in bank loans for 2014 and the corresponding interest expenses.
- (6) Impairment losses of assets decreased by approximately 7.25%, which was mainly attributable the decrease in loss from inventory depreciation by RMB2,561,800.
- (7) Non-operating income increased by approximately 18.60%, which was mainly attributable to increase in government subsidies.

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- (8) Non-operating expenses decreased by approximately 77.47%, which was mainly attributable to expenses from the government subsidized projects, being comprised in the non-operating expenses 2013 but not for 2014.
- (9) Investment for research and development increased by approximately 38.15%, which was mainly attributable to the increase in number of research and development projects.
- (10) Net cash flows generated from operating activities decreased by approximately 104.34%, which was mainly attributable to increase in number of projects executed for 2014, and at the same time increase in staff raised the labour cost.
- (11) Net cash flows generated from investing activities increased by approximately 1.73%, which was mainly attributable to increase in cash payment for acquisition and construction of fixed assets, intangible assets and etc.
- (12) Net cash flows generated from financing activities decreased by approximately 142.55%, which was mainly attributable to the issuance of shares by Taiji Computer to China Electronics Technology Group Corporation* (中國電子科技集團) to raise capital in 2013.
- (13) Account receivables increased by approximately 30.62%, which was mainly attributable to the increase in project settlement.
- (14) Prepayments increased by approximately 43.75%, which was mainly attributable to the increase in prepayments for the construction of Taiji cloud base.
- (15) Interest receivables increased by approximately 94.42%, which was mainly attributable to the increase in interest receivables for the deposits in the fund-raising special accounts.
- (16) Construction in progress increased by approximately 209.27%, which was mainly attributable to the construction investment for Taiji cloud base.
- (17) Development expenditure increased by approximately 298.64%, which was mainly attributable to increase in number of research and development project
- (18) Short-term loans increased by approximately 40.00%, which was mainly attributable to the increase in bank loans.
- (19) Notes payable decreased by approximately 58.29%, which was mainly attributable to payments for expiring bank notes.

VI. Employee and remuneration*a. Employee Composition*

The employees of Taiji Computer mainly comprised of technicians and sales, which accounted for more than 90% of the employees. The majority of them have obtained a bachelor's degree or a master's degree, which accounted for 86.52%, 91.93% and 92.29% of the employees for 2013, 2014 and 2015 respectively.

b. Employee remuneration policy

Based on Taiji Computer's development plans and the direction of its operating goals, Taiji Computer has gradually established a comprehensive corporate internal incentive mechanism based on job duties and performance to attract and retain talents. Such mechanism realizes efficiency and prioritizes the principle of fairness and distribute according to work. Together with the integration of the PRC laws and regulations, a fair and competitive employee salaries and benefits system has been formulated.

c. Training Programme

Taiji Computer has established an employee training and re-education mechanism. By taking into account the manufacturing and operation needs, employee business and management quality, Taiji Computer has adopted the integration of internal and external training to formulate the training programme and enhance the quality of the team so as to ensure realization of operation goals and the development of the enterprise and employees as a whole.

VII. Pledge of Assets

As at 31 December 2013, 2014 and 2015, the Taiji Computer Group did not pledge any of its assets.

VIII. Future plans for material investments or capital assets

In 2015, subject to the needs of its business development, the Taiji Computer Group will carry on reasonable financial planning and financing, actively promote strategic merger and acquisition in the industry and self-controlled information security industry together with investment in the construction of Taiji cloud computing centre.

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In 2015, Taiji Computer focused on the needs of safe and reliable system construction to actively carry out independent and controllable industrial layout and key capacity construction. Taiji Computer set up an independent and controllable engineering research centre, actively carried out research and development on adaptable integration and application system based on domestic infrastructure software and hardware, the first batch of secure electronic documentation system which was researched and developed independently passed through testing certification by regulatory bodies. Taiji Computer will increase extensional development, will rapidly formulate the layout key infrastructure software and hardware products by means of capital investments, it hopes to build a “hardware and software integration” industrial system through strategic collaboration.

IX. Material changes in assets and liabilities

a. Material changes in assets

Expressed in: RMB

| Item | For the year ended 31 December 2015 | | For the year ended 31 December 2014 | | Changes | Explanation on the material changes |
|-----------------------------|--|----------------------------------|--|----------------------------------|---------|--|
| | Balance | Percentage in total assets | Balance | Percentage in total assets | | |
| Cash and cash equivalents | 1,036,110,881.22 | 17.84% | 992,039,797.49 | 23.85% | -6.01% | Procurement for projects in execution and increase in investment in construction of cloud base |
| Account receivables | 2,074,200,535.81 | 35.72% | 1,489,756,053.34 | 35.82% | -0.10% | No material changes |
| Inventories | 497,447,037.78 | 8.57% | 103,189,910.68 | 2.48% | 6.09% | Increase in inventories of the projects in execution |
| Long term equity investment | 173,240,370.63 | 2.98% | 112,771,391.45 | 2.71% | 0.27% | No material changes |
| Fixed assets | 75,074,095.77 | 1.29% | 32,114,318.39 | 0.77% | 0.52% | No material changes |
| Construction in progress | 342,957,651.90 | 5.91% | 17,535,085.09 | 0.42% | 5.49% | Increase in investment for the construction of Taiji cloud base |

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON TAIJI COMPUTER

Expressed in: RMB

| Item | 2014 | | 2013 | | Changes | Explanation on the material changes |
|-----------------------------|------------------|----------------------------|------------------|----------------------------|---------|--|
| | Balance | Percentage in total assets | Balance | Percentage in total assets | | |
| Cash and cash equivalents | 992,039,797.49 | 23.85% | 1,221,745,537.34 | 31.61% | -7.76% | Increase in payments for executed projects and construction of cloud base |
| Account receivables | 1,489,756,053.34 | 35.82% | 1,140,516,249.62 | 29.51% | 6.31% | Increase in executed project, revenue and receivables to be collected with reference to the progress of projects |
| Inventories | 103,189,910.68 | 2.48% | 112,908,132.65 | 2.92% | -0.44% | |
| Investment properties | 0.00 | 0.00% | 0.00 | 0.00% | 0.00% | |
| Long term equity investment | 112,771,391.45 | 2.71% | 110,377,846.94 | 2.86% | -0.15% | |
| Fixed assets | 32,114,318.39 | 0.77% | 28,691,537.40 | 0.74% | 0.03% | |
| Construction in progress | 17,535,085.09 | 0.42% | 5,669,753.24 | 0.15% | 0.27% | Increase in investment for the construction of Taiji cloud computing base |
| Prepayments | 195,991,257.36 | 4.71% | 136,345,455.50 | 3.53% | 1.18% | Increase in prepayments for Taiji cloud computing base |
| Interest receivables | 7,034,544.96 | 0.17% | 3,618,175.74 | 0.09% | 0.08% | Increase in interest receivables from the deposits in the fund-raising special accounts |
| Development expenditure | 29,242,815.62 | 0.70% | 7,335,595.36 | 0.19% | 0.51% | Increase in new research and development projects |

b. Material changes in liabilities

Expressed in: RMB

| Item | For the year ended 31 December 2015 | | For the year ended 31 December 2014 | | Changes | Explanation on the material changes |
|------------------|--|----------------------------|--|----------------------------|---------|-------------------------------------|
| | Balance | Percentage in total assets | Balance | Percentage in total assets | | |
| Short term loans | 401,812,594.11 | 6.92% | 35,000,000.00 | 0.84% | 6.08% | Increase in short term loans |
| Notes payables | 130,997,220.21 | 2.26% | 50,894,773.85 | 1.22% | 1.04% | No material changes |
| Account payable | 1,464,101,263.04 | 25.21% | 756,364,565.20 | 18.19% | 7.02% | Increase in inventories |

Expressed in: RMB

| Item | 2014 | | 2013 | | Changes | Explanation on the material changes |
|------------------|---------------|----------------------------|----------------|----------------------------|---------|-------------------------------------|
| | Balance | Percentage in total assets | Balance | Percentage in total assets | | |
| Short term loans | 35,000,000.00 | 0.84% | 25,000,000.00 | 0.65% | 0.19% | Increase in bank loans |
| Long term loans | 0.00 | | 0.00 | | | |
| Notes payables | 50,894,773.85 | 1.22% | 122,016,661.66 | 3.16% | -1.94% | Expiry of notes payables |

c. Debt ratio

As at 31 December 2014, the debt ratio of the Taiji Computer Group was 51.31%, which remained stable as compared with the debt ratio for the year ended 31 December 2013 (2013: 51.31%).

As at 31 December 2015, the debt ratio of the Taiji Computer Group was 62.51%, which has increased as compared with the debt ratio for the year ended 31 December 2014.

X. Exposure to fluctuations in exchange rates and any related hedges

As at 31 December 2013 and 2014, as none of the transactions of the Taiji Computer Group were denominated or settled in foreign exchange currency, there was no significant exposure to fluctuation in foreign exchange currency.

As at 31 December 2015, the foreign currency assets held by Taiji Computer Group was RMB78,655,260.00, of which RMB183.79 was foreign currency assets, RMB78,655,260.00 was account receivables. In relation to various types of US dollar financial assets and US dollars financial liabilities of Taiji Computer, in case RMB against the US dollar, the pound, the euro appreciate or depreciate for 10%, while other factors remain unchanged, the net profit of Taiji Computer Group will have an increase or a decrease of approximately RMB7,865,544.38 and other comprehensive income will have an increase or a decrease of approximately RMB7,865,544.38.

XI. Details of contingent liabilities

As at 31 December 2013, 2014 and 2015 respectively, the Taiji Computer Group did not have any material contingent liabilities.

A. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**(1) Notes to the Unaudited Pro Forma Financial Information of the Group***1. Introduction to very substantial disposal and very substantial acquisition transactions*

On 22 December 2015, the Board discussed and approved the resolution regarding the sale of the 90% equity interests in Powerleader Computing held by the Company to Taiji Computer, the resolution regarding signing the ‘Agreement on Purchase of Assets through Shares Issuance and Cash Payment’ and the ‘Profit Guarantee Compensation Agreement’ entered into between the Company and Taiji Computer and the resolution regarding the sale of the 10% equity interests in Powerleader Computing held by the wholly-owned subsidiary of the Company, PC Research Institute to Taiji Computer.

Pursuant to the Agreement on Purchase of Assets through Shares Issuance and Cash Payment, Taiji Computer shall pay RMB1,666,000,000 as consideration for the acquisition of 100% equity interests in Powerleader Computing held by the Company and PC Research Institute, in which RMB224,910,000 and RMB24,990,000 will be paid in cash to the Company and PC Research Institute respectively, the balance of RMB1,274,490,000 and RMB141,610,000 will be paid by the shares issuance by Taiji Computer to the Company and PC Research Institute. After the issuance of the above-mentioned shares, the Group will own 8.65% equity interests in Taiji Computer. Assuming that Taiji Computer does not issue or buy back any shares prior to the completion of the Disposal, the total consideration shares account for about 9.46% of the issued share capital of Taiji Computer as at the Latest Practicable Date and account for about 8.65% of the issued share capital of Taiji Computer as enlarged by the allotment and issuance of the Total Consideration Shares.

Pursuant to the “Profit Guarantee Compensation Agreement”, the Company and PC Research Institute undertook that the net profit attributable to the shareholders of Powerleader Computing after deducting of extraordinary gains and losses shall not be less than RMB121,915,400, RMB159,622,300 and RMB213,757,000 in years 2016, 2017 and 2018 respectively. If the actual amount of net profit of Powerleader Computing fails to reach the corresponding forecasted amount of that year committed by the Company and PC Research Institute in any of the above three years, as audited and verified by a certified public accountant, the Company and PC Research Institute will pay Taiji Computer a compensation in the form of shares. The total number of shares to be compensated each year shall be calculated as set out below:

The total number of shares to be compensated each year = (the guaranteed cumulative net profit as at the end of relevant period – the actual cumulative net profit as at the end of relevant period) ÷ the total sum of guaranteed net profit of each year during profit compensation period × the total transaction value of target asset ÷ issue price of the consideration shares in total – number of Taiji Computer Shares previously paid in compensation

2. Basis of Preparation of Pro Forma Financial Statements

The unaudited pro forma financial information of the Group prepared by the Directors in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Disposal, the Acquisition and the disposal of Taiji Computer Shares involved in the Buy-back Option. The pro forma financial information includes the unaudited consolidated pro forma balance sheet as at 31 December 2015, unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement for the year ended 31 December 2015.

The pro forma financial information is prepared based on (i) the audited consolidated statement of financial position of the Group as at 31 December 2015 extracted from the published annual report of the Group dated 29 March 2016 for the year ended 31 December 2015 and (ii) the audited consolidated statement of financial position of Powerleader Computing and Powerleader Software for conducting the Server and Software Business as at 31 December 2013, 2014 and 2015 extracted from the accountants' reports as set out in Appendix II to this circular.

The unaudited pro forma balance sheet of the Disposal is prepared based on assumption that the disposal of business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) had been completed on 31 December 2015. The unaudited pro forma income statement and the unaudited pro forma cash flow statement of the Disposal are prepared based on assumption that the disposal of the business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) had been completed on 1 January 2015. The business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) will be excluded from the financial statement of the Group.

The unaudited pro forma balance sheet of the Acquisition is prepared based on the assumption that the sale of business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) had been completed as at 31 December 2015. The unaudited pro forma income statement and the unaudited pro forma cash flow statement of the Acquisition are prepared based on the assumption that the sale of business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) had been completed as at 1 January 2015. The unaudited pro forma financial information of the Acquisition is prepared based on the assumption that Taiji Computer does not issue or repurchase any share prior to the completion of the Acquisition and the Total Consideration Shares represent about 9.46% of the issued share capital of Taiji Computer as at the Latest Practicable Date. The business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) will be excluded from the financial statement of the Group and the 9.46% equity in Taiji Computer will be added into the financial statement of the Group.

The unaudited pro forma balance sheet of disposal of Taiji Computer Shares involved in the Buy-back Option is prepared based on the assumption that the sale of business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) had been completed by the Group as at 31 December 2015. The unaudited pro forma

income statement and cash flow statement of the disposal of Taiji Computer Shares involved in the Buy-back Option are prepared based on the assumption that the sale of business of Powerleader Computing, Powerleader Software and Powerleader Computer System (HK) had been completed by the Group as at 1 January 2015. The unaudited pro forma financial information of the disposal of Taiji Computer Shares involved in the Buy-back Option is prepared based on the assumption that Taiji Computer does not issue or repurchase any share prior to the completion of the transaction and the Total Consideration Shares represent about 9.46% of the issued share capital of Taiji Computer as at the Latest Practicable Date and provided that the net profit in the consolidated account represented by the shareholders of Powerleader Computing during Compensation Period fails to reach the agreed amount, the Company shall compensate Taiji Computer in shares based on the issue price of RMB36.02 per share of Taiji Computer (subject to adjustment) and the consideration for the Disposal is RMB16,660,000,000. The Company and PC Research Institute will issue at most 46,252,082 shares of Taiji Computer pursuant to the Profit Guarantee Compensation and the Asset Impairment Compensation. The pro forma financial information of the disposal of Taiji Computer Shares involved in the Buy-back Option is prepared based on assumption that the highest amount of compensation is RMB16,660,000,000. That is, the number of shares to compensate Taiji Computer shall be not more than 46,252,082 based on the issue price of RMB36.02 per share of Taiji Computer.

The pro forma financial information is based on certain assumptions, estimates, uncertainties and other currently available information, and is provided for illustrative purposes only and it does not purport to describe the actual business performance, financial position or cash flow of the Disposal, Acquisition and disposal of Taiji Computer Shares involved in the Buy-back Option that would have been attained had such events been completed at the time of preparation or any date in the future. The unaudited pro forma financial information of the Disposal, the Acquisition and the disposal of Taiji Computer Shares involved in the Buy-back Option should be read in conjunction with the financial information of the Group set out in Appendix I to this circular, the financial information of the Server and Software Businesses set out in Appendix II to this circular, the financial information of Taiji Computer set out in Appendix III to this circular, the published annual report of the Group as of 31 December 2015 and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA FINANCIAL STATEMENTS

(1) Unaudited pro forma financial statements

The following pro forma financial statements are the unaudited pro forma financial statement regarding the remaining business after completion of the Disposal and the Acquisition, is prepared based on the audited financial statements of the Group after making appropriate pro forma adjustments. The following is the illustration for note (1) to note (5) of the pro forma financial statements:

Note (1) in the unaudited pro forma balance sheet represents the audited consolidated balance sheet of the Group as at 31 December 2015.

Note (1) in each of the unaudited pro forma income statement and unaudited pro forma cash flow statement represents the audited consolidated income statement and consolidated cash flow statement of the Group for the year 2015.

Note (2) represents the restoration of business and transactions between the business to be sold and the remaining business after completion of the Disposal and the Acquisition that has been offset in the audited consolidated financial statements of the Group.

Note (3) represents the assets, liabilities, profit and loss of the business to be sold by the Group in the Disposal.

Note (4) represents the consideration and corresponding tax to be paid by Taiji Computer to the Group after the completion of the Disposal, in which the consideration includes RMB249,900,000 in cash and 9,367,344 shares of Taiji Computer (at RMB36.02/share.)

Note (5) in the unaudited pro forma balance sheet represents the unaudited pro forma balance sheet of the Group as at 31 December 2015 after the completion of the Disposal and Acquisition.

Note (5) in each of the unaudited pro forma income statement and unaudited pro forma cash flow statement represents the unaudited pro forma income statement and unaudited pro forma cash flow statement for the year 2015 of the remaining business after the completion of the Disposal and Acquisition.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

1. Unaudited pro forma balance sheet

| Item | Audited balance sheet as at 31 December 2015 | Pro forma adjustments | | | Unaudited pro forma balance sheet of the remaining business after completion of the Disposal and the Acquisition as at 31 December 2015 |
|-------------------------------------|--|--------------------------------|---|--|---|
| | | Internal offset restoration | Assets and liabilities of the proposed Disposal | Cash and shares paid by Taiji Computer | (5) = (1) + (2) - (3) + (4) |
| | (1) | (2) | (3) | (4) | |
| Current Assets: | | | | | |
| Cash and cash equivalents | 486,466,976.00 | | 18,893,655.07 | 249,900,000.00 | 717,473,320.93 |
| Notes receivable | 6,314,185.02 | | 6,063,095.02 | | 251,090.00 |
| Accounts receivable | 785,651,717.22 | 385,194,458.26 | 360,952,250.99 | | 809,893,924.49 |
| Prepayments | 37,937,239.65 | | 32,515,113.62 | | 5,422,126.03 |
| Other receivables | 317,934,413.10 | | 173,962,112.18 | | 143,972,300.92 |
| Inventories | 396,209,412.70 | | 143,166,520.58 | | 253,042,892.12 |
| Other current assets | 17,057,035.51 | | 686,514.14 | | 16,370,521.37 |
| Total current assets | 2,047,570,979.20 | 385,194,458.26 | 736,239,261.60 | 249,900,000.00 | 1,946,426,175.86 |
| Non-current assets: | | | | | |
| Available-for-sale financial assets | 10,100,000.00 | | — | | 10,100,000.00 |
| Long-term equity investment | 203,846,547.56 | | — | 1,416,100,000.00 | 1,619,946,547.56 |
| Investment Properties | 9,036,206.94 | | — | | 9,036,206.94 |
| Fixed assets | 421,305,659.74 | | 10,443,644.71 | | 410,862,015.03 |
| Intangible assets | 64,285,020.01 | | 31,587,573.28 | | 32,697,446.73 |
| Development expenditure | 43,827,182.72 | | 42,945,948.74 | | 881,233.98 |
| Long-term prepayments | 1,182,454.81 | | — | | 1,182,454.81 |
| Deferred income tax assets | 1,762,550.44 | | 903,192.54 | | 859,357.90 |
| Total non-current assets | 755,345,622.22 | — | 85,880,359.27 | 1,416,100,000.00 | 2,085,565,262.95 |
| Total assets | 2,802,916,601.42 | 385,194,458.26 | 822,119,620.87 | 1,666,000,000.00 | 4,031,991,438.81 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

1. Unaudited pro forma balance sheet

| Item | Audited balance sheet as at 31 December 2015 | Pro forma adjustments | | | Unaudited pro forma balance sheet of the remaining business after completion of the Disposal and the Acquisition as at 31 December 2015 |
|---|--|--------------------------------|---|--|---|
| | | Internal offset restoration | Assets and liabilities of the proposed Disposal | Cash and shares paid by Taiji Computer | (5) = (1) + (2) - (3) + (4) |
| | (1) | (2) | (3) | (4) | |
| Current liabilities: | | | | | |
| Short-term loans | 1,091,452,256.44 | | — | | 1,091,452,256.44 |
| Financial liabilities at fair value through profit or loss for the current period | 4,228,219.07 | | — | | 4,228,219.07 |
| Notes payable | 220,000,000.00 | | — | | 220,000,000.00 |
| Accounts payable | 286,158,968.96 | 382,143,756.54 | 416,716,681.32 | | 251,586,044.18 |
| Receipts in advance | 40,935,292.29 | | 21,648,944.44 | | 19,286,347.85 |
| Employee remuneration payables | 7,181,758.69 | | 5,041,837.69 | | 2,139,921.00 |
| Tax and levy payables | 54,291,104.82 | | 25,211,123.33 | 37,485,000.00 | 66,564,981.49 |
| Interest payables | 470,903.47 | | — | | 470,903.47 |
| Other payables | 49,958,803.54 | | 40,142,620.37 | | 9,816,183.17 |
| Non-current liabilities repayable within one year | 54,174,596.81 | | — | | 54,174,596.81 |
| Other current liabilities | 1,526,246.93 | | 1,353,562.56 | | 172,684.37 |
| Total current liabilities | 1,810,378,151.02 | 382,143,756.54 | 510,114,769.71 | 37,485,000.00 | 1,719,892,137.85 |
| Non-current liabilities: | | | | | |
| Long-term loans | 115,000,000.00 | | — | | 115,000,000.00 |
| Long-term payables | 31,142,682.49 | | — | | 31,142,682.49 |
| Deferred income | 20,660,000.00 | | 20,660,000.00 | | -0.00 |
| Total non-current liabilities | 166,802,682.49 | — | 20,660,000.00 | — | 146,142,682.49 |
| Total Liabilities | 1,977,180,833.51 | 382,143,756.54 | 530,774,769.71 | 37,485,000.00 | 1,866,034,820.34 |
| Owners' equity: | | | | | |
| Capital | 243,000,000.00 | | 38,000,000.00 | | 205,000,000.00 |
| Capital reserves | 35,384,836.46 | 45,093,917.44 | 45,433,917.44 | | 35,044,836.46 |
| Other comprehensive income | -149,453.72 | | — | | -149,453.72 |
| Surplus reserves | 37,626,042.30 | | — | | 37,626,042.30 |
| Undistributed profits | 509,876,824.43 | -42,043,215.72 | 207,910,933.72 | 1,628,515,000.00 | 1,888,437,674.99 |
| Total equity attributable to shareholders of the Company | 825,738,249.47 | 3,050,701.72 | 291,344,851.16 | 1,628,515,000.00 | 2,165,959,100.03 |
| Minority interests | -2,481.56 | | — | | -2,481.56 |
| Total shareholders' equity | 825,735,767.91 | 3,050,701.72 | 291,344,851.16 | 1,628,515,000.00 | 2,165,956,618.47 |
| Total liabilities and shareholders' equity | 2,802,916,601.42 | 385,194,458.26 | 822,119,620.87 | 1,666,000,000.00 | 4,031,991,438.81 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

2. Unaudited pro forma income statement

| Item | Audited income statement for the year of 2015 (1) | Pro forma adjustments | | | Unaudited pro forma income statement of the remaining business after completion of the Disposal and the Acquisition for the year of 2015 (5) = (1) + (2) - (3) + (4) |
|--|--|------------------------------------|--|---|---|
| | | Internal offset restoration (2) | Income statement of the proposed Disposal (3) | Cash and shares paid by Taiji Computer (4) | |
| I. Total revenue | 2,686,354,110.38 | | 772,596,528.17 | | 1,913,757,582.21 |
| Including: revenue | 2,686,354,110.38 | | 772,596,528.17 | | 1,913,757,582.21 |
| II. Total operating cost | 2,671,498,107.03 | | 701,004,748.52 | | 1,970,493,358.51 |
| Including: Operating cost | 2,433,032,788.56 | | 615,951,801.25 | | 1,817,080,987.31 |
| Business taxes and surcharges | 2,056,983.42 | | 956,314.93 | | 1,100,668.49 |
| Sales expenses | 59,544,519.53 | | 29,430,697.44 | | 30,113,822.09 |
| Administrative expenses | 75,623,844.23 | | 34,509,561.35 | | 41,114,282.88 |
| Finance costs | 89,749,447.32 | | 13,482,034.17 | | 76,267,413.15 |
| Impairment loss of assets | 11,490,523.97 | | 6,674,339.38 | | 4,816,184.59 |
| Add: Gain on changes in fair value (loss is denoted as “(”)) | -4,228,219.07 | | — | | -4,228,219.07 |
| Gain on investment (loss is denoted as “(”)) | 7,329,851.91 | | — | 1,666,000,000.00 | 1,673,329,851.91 |
| Including: Gain on investment to associates and joint ventures | 7,132,805.96 | | — | | 7,132,805.96 |
| III. Operating profit (loss is denoted as “(”)) | 17,957,636.19 | | 71,591,779.65 | 1,666,000,000.00 | 1,612,365,856.54 |
| Add: Non-operating income | 13,324,570.47 | 3,050,701.72 | 15,400,527.74 | | 974,744.45 |
| Including: Gain on disposal of non-current assets | 143.00 | | 143.00 | | — |
| Less: Non-operating expenses | 1,549,841.80 | | 1,334,036.79 | | 215,805.01 |
| Including: Loss on disposal of non-current assets | 1,227,354.44 | | 1,126,321.60 | | 101,032.84 |
| IV. Total Profit (total loss is denoted as “(”)) | 29,732,364.86 | 3,050,701.72 | 85,658,270.60 | 1,666,000,000.00 | 1,613,124,795.98 |
| Less: Income tax expenses | 8,462,790.05 | | 15,724,620.42 | 37,485,000.00 | 30,223,169.63 |
| V. Net profit (net loss is denoted as “(”)) | 21,269,574.81 | 3,050,701.72 | 69,933,650.18 | 1,628,515,000.00 | 1,582,901,626.35 |
| Net profit attributable to shareholders of the Company | 21,269,795.44 | 3,050,701.72 | 69,933,650.18 | 1,628,515,000.00 | 1,582,901,846.98 |
| Profit or loss attributable to minority interests | -220.63 | | — | | -220.63 |
| VI. Other comprehensive income net of tax | -173,225.12 | — | — | — | -173,225.12 |
| (II) Other comprehensive income which will be reclassified to profit or loss | -173,225.12 | — | — | — | -173,225.12 |
| 1. Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method | -173,225.12 | | | | -173,225.12 |
| VII. Total comprehensive income | 21,096,349.69 | 3,050,701.72 | 69,933,650.18 | 1,628,515,000.00 | 1,582,901,846.98 |
| Total comprehensive income attributable to shareholders of the Company | 21,269,795.44 | 3,050,701.72 | 69,933,650.18 | 1,628,515,000.00 | 1,582,901,846.98 |
| Total comprehensive income attributable to minority interests | -220.63 | | — | | -220.63 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

3. Unaudited pro forma cash flow statement

| Item | Audited cash flow statement for the year of 2015 (1) | Pro forma adjustments | | | Unaudited pro forma cash flow statement of the remaining business after completion of the Disposal and the Acquisition for the year of 2015 (5) = (1) + (2) - (3) + (4) |
|--|---|------------------------------------|---|------------------------------------|--|
| | | Internal offset restoration (2) | Cash flow statement of the proposed Disposal (3) | Cash paid by Taiji Computer (4) | |
| I. Cash flows generated from operating activities: | | | | | |
| Cash received from sale of goods and rendering of services | 2,740,140,952.81 | | 750,157,072.93 | | 1,989,983,879.88 |
| Refund of taxes and levies received | 3,054,355.10 | | 2,965,355.10 | | 89,000.00 |
| Other cash receipts relating to operating activities | 114,573,493.44 | | 10,158,220.68 | | 104,415,272.76 |
| Sub-total of cash inflows from operating activities | 2,857,768,801.35 | — | 763,280,648.71 | — | 2,094,488,152.64 |
| Cash paid for purchase of goods and receiving services | 2,619,256,466.89 | | 577,985,137.37 | | 2,041,271,329.52 |
| Cash paid to and on behalf of employees | 53,877,868.67 | | 30,256,784.78 | | 23,621,083.89 |
| Payments of taxes and levies | 68,781,011.78 | | 15,565,302.17 | | 53,215,709.61 |
| Other cash payments relating to operating activities | 157,412,116.63 | | 123,007,740.90 | | 34,404,375.73 |
| Sub-total of cash outflows from operating activities | 2,899,327,463.97 | — | 746,814,965.22 | — | 2,152,512,498.75 |
| Net cash flows generated from operating activities | -41,558,662.62 | — | 16,465,683.49 | — | -58,024,346.11 |
| II. Cash flows generated from investing activities: | | | | | |
| Cash received from recovery of investments | 1,000,000.00 | | — | | 1,000,000.00 |
| Cash received from returns on investments | 197,045.95 | | — | | 197,045.95 |
| Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets | 138,460.00 | | 9,576.33 | | 128,883.67 |
| Net cash received from disposal of subsidiaries and other business units | 1,300,000.00 | | — | 249,900,000.00 | 251,200,000.00 |
| Other cash receipts relating to investing activities | — | | — | | — |
| Sub-total cash inflows from investing activities | 2,635,505.95 | — | 9,576.33 | 249,900,000.00 | 252,525,929.62 |
| Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets | 84,129,178.72 | | 16,036,453.72 | | 68,092,725.00 |
| Cash paid on investments | 11,440,000.00 | | — | | 11,440,000.00 |
| Sub-total cash outflows from investing activities | 95,569,178.72 | — | 16,036,453.72 | — | 79,532,725.00 |
| Net cash flows generated from investing activities | -92,933,672.77 | — | -16,026,877.39 | 249,900,000.00 | 172,993,204.62 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

| Item | Audited cash flow statement for the year of 2015 | Pro forma adjustments | | | Unaudited pro forma cash flow statement of the remaining business after completion of the Disposal and the Acquisition for the year of 2015 (5) = (1) + (2) - (3) + (4) |
|---|--|--------------------------------|--|--------------------------------|--|
| | | Internal offset restoration | Cash flow statement of the proposed Disposal | Cash paid by Taiji Computer | |
| | (1) | (2) | (3) | (4) | |
| III. Cash flows generated from financing activities: | | | | | |
| Cash received from loans | 2,788,946,091.43 | | — | | 2,788,946,091.43 |
| Sub-total cash inflows from financing activities | 2,788,946,091.43 | — | — | — | 2,788,946,091.43 |
| Cash payments for settlement of debts | 2,565,992,270.52 | | — | | 2,565,992,270.52 |
| Cash payments for distribution of dividend, profits or interests settlement | 66,240,657.42 | | — | | 66,240,657.42 |
| Other cash payments relating to financing activities | 158,649,175.16 | | — | | 158,649,175.16 |
| Sub-total cash outflows from financing activities | 2,790,882,103.10 | — | — | — | 2,790,882,103.10 |
| Net cash flows generated from financing activities | -1,936,011.67 | — | — | — | -1,936,011.67 |
| IV. Effect of changes in exchange rate on cash and cash equivalents | 7,481,108.88 | | — | | 7,481,108.88 |
| V. Net increase in cash and cash equivalents | -128,947,238.18 | — | 438,806.10 | 249,900,000.00 | 120,513,955.72 |
| Add: Balance of cash and cash equivalents at beginning of period | 381,156,365.62 | | 18,454,848.97 | | 362,701,516.65 |
| VI. Balance of cash and cash equivalents at end of period | <u>252,209,127.44</u> | <u>—</u> | <u>18,893,655.07</u> | <u>249,900,000.00</u> | <u>483,215,472.37</u> |

(2) Unaudited pro forma financial statements of the remaining business after disposal of Taiji Computer Shares involved in the Buy-back Option

The following pro forma financial statements are the financial statements of the remaining business after the disposal of Taiji Computer Shares involved in the Buy-back Option of the Group. The following is the illustration to note (1) to note (3) of the pro forma financial statements:

Note (1) in the unaudited pro forma balance sheet represents the unaudited consolidated balance sheet of the Group at 31 December 2015 of the remaining business after the completion of the Disposal and the Acquisition.

Note (1) in each of the unaudited pro forma income statement and unaudited pro forma cash flow statement represents the unaudited consolidated income statement and consolidated cash flow statement of the Group for the year 2015 of the remaining business after the completion of the Disposal and the Acquisition.

Note (2) represents if the net profit in the consolidated account attributable to the shareholders of Powerleader Computing during profit compensation period fails to reach the agreed amount and thereby triggering Taiji Computer to exercise the Buy-back Option, the Group will pay consideration to Taiji Computer herefrom. That is, the Group shall compensate Taiji Computer in the form of shares based on the issue price of RMB36.02 per share of Taiji Computer (subject to adjustment) and the consideration for the Disposal is RMB16,660,000. Taiji Computer shall pay RMB1 as consideration.

Note (3) in the unaudited pro forma balance sheet represents the unaudited pro forma balance sheet as at 31 December 2015 of the remaining business after the completion of the Disposal and Acquisition when taking all changes in assets and liabilities incurred by the disposal of Taiji Computer Shares involved in the Buy-back Option into consideration.

Note (3) in each of the unaudited pro forma income statement and unaudited pro forma cash flow statement represents the unaudited pro forma income statement and the unaudited pro forma cash flow statement of the Group for the year 2015 of the remaining business after the completion of the Disposal and the Acquisition when taking all changes in assets and liabilities incurred by the disposal of Taiji Computer Shares involved in the Buy-back Option into consideration.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

1. Unaudited pro forma balance sheet of the remaining business after the disposal of Taiji Computer Shares involved in the Buy-back Option

| Item | Pro forma balance sheet of the Group as at 31 December 2015 (1) | Pro forma adjustments Taiji Computer Shares being repurchased by Taiji Computer (2) | Pro forma balance sheet after repurchase by Taiji Computer as at 31 December 2015 (3) = (1) – (2) |
|-------------------------------------|--|--|--|
| Current Assets: | | | |
| Cash and cash equivalents | 717,473,320.93 | 249,899,999.00 <i>(Note)</i> | 467,573,321.93 |
| Notes receivable | 251,090.00 | | 251,090.00 |
| Accounts receivable | 809,893,924.49 | | 809,893,924.49 |
| Prepayments | 5,422,126.03 | | 5,422,126.03 |
| Other receivables | 143,972,300.92 | | 143,972,300.92 |
| Inventories | 253,042,892.12 | | 253,042,892.12 |
| Other current assets | 16,370,521.37 | | 16,370,521.37 |
| Total current assets | 1,946,426,175.86 | 249,899,999.00 | 1,696,526,176.86 |
| Non-current assets: | | | |
| Available-for-sale financial assets | 10,100,000.00 | | 10,100,000.00 |
| Long-term equity investment | 1,619,946,547.56 | 1,416,100,000.00 | 203,846,547.56 |
| Investment Properties | 9,036,206.94 | | 9,036,206.94 |
| Fixed assets | 410,862,015.03 | | 410,862,015.03 |
| Intangible assets | 32,697,446.73 | | 32,697,446.73 |
| Development expenditure | 881,233.98 | | 881,233.98 |
| Long-term prepayments | 1,182,454.81 | | 1,182,454.81 |
| Deferred income tax assets | 859,357.90 | | 859,357.90 |
| Total non-current assets | 2,085,565,262.95 | 1,416,100,000.00 | 669,465,262.95 |
| Total assets | <u>4,031,991,438.81</u> | <u>1,665,999,999.00</u> | <u>2,365,991,439.81</u> |

Note: The maximum number of Taiji Computer Shares that may be repurchased under the Buy-back Option exceeds the number of Taiji Computer Shares comprised in the Total Consideration Shares by the amount equivalent to the cash portion of the consideration for the Disposal (i.e. RMB249,900,000). In the event such maximum number of Taiji Computer Shares is required to be repurchased under the Buy-back Option, the Company and PC Research Institute would have use cash to acquire additional Taiji Computer Shares to make compensation to Taiji Computer for the amount equivalent to RMB249,900,000. The corresponding adjustments to cash and cash equivalent of the Group is a deduction of RMB249,900,000 and an addition of RMB1 being the cash consideration payable by Taiji Computer.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

1. Unaudited pro forma balance sheet of the remaining business after the disposal of Taiji Computer Shares involved in the Buy-back Option

| Item | Pro forma balance sheet of the Group as at 31 December 2015 (1) | Pro forma adjustments Taiji Computer Shares being repurchased by Taiji Computer (2) | Pro forma balance sheet after repurchase by Taiji Computer as at 31 December 2015 (3) = (1) – (2) |
|--|--|--|--|
| Current liabilities: | | | |
| Short-term loans | 1,091,452,256.44 | | 1,091,452,256.44 |
| Financial liabilities at fair value through profit or loss for the current period | 4,228,219.07 | | 4,228,219.07 |
| Notes payable | 220,000,000.00 | | 220,000,000.00 |
| Accounts payable | 251,586,044.18 | | 251,586,044.18 |
| Receipts in advance | 19,286,347.85 | | 19,286,347.85 |
| Employee remuneration payables | 2,139,921.00 | | 2,139,921.00 |
| Tax and levy payables | 66,564,981.49 | | 66,564,981.49 |
| Interest payables | 470,903.47 | | 470,903.47 |
| Other payables | 9,816,183.17 | | 9,816,183.17 |
| Non-current liabilities repayable within one year | 54,174,596.81 | | 54,174,596.81 |
| Other current liabilities | 172,684.37 | | 172,684.37 |
| Total current liabilities | 1,719,892,137.85 | — | 1,719,892,137.85 |
| Non-current liabilities: | | | |
| Long-term loans | 115,000,000.00 | | 115,000,000.00 |
| Long-term payables | 31,142,682.49 | | 31,142,682.49 |
| Total non-current liabilities | 146,142,682.49 | — | 146,142,682.49 |
| Total Liabilities | 1,866,034,820.34 | — | 1,866,034,820.34 |
| Owners' equity: | | | |
| Capital | 205,000,000.00 | | 205,000,000.00 |
| Capital reserves | 35,044,836.46 | | 35,044,836.46 |
| Other comprehensive income | -149,453.72 | | -149,453.72 |
| Surplus reserves | 37,626,042.30 | | 37,626,042.30 |
| Undistributed profits | 1,888,437,674.99 | 1,665,999,999.00 | 222,437,675.99 |
| Total equity attributable to shareholders of the Company | 2,165,959,100.03 | 1,665,999,999.00 | 499,959,101.03 |
| Minority interests | -2,481.56 | | -2,481.56 |
| Total shareholders' equity | 2,165,956,618.47 | 1,665,999,999.00 | 499,956,619.47 |
| Total liabilities and shareholders' equity | 4,031,991,438.81 | 1,665,999,999.00 | 2,365,991,439.81 |

2. *Unaudited Pro forma income statement of the remaining business after the disposal of Taiji Computer Shares involved in the Buy-back Option*

| Item | Pro forma income statement of the Group for the year of 2015 (1) | Pro forma adjustments Taiji Computer Shares being repurchased by Taiji Computer (2) | Pro forma income statement after repurchase by Taiji Computer for the year of 2015 (3) = (1) – (2) |
|---|---|--|---|
| I. Total revenue | 1,913,757,582.21 | | 1,913,757,582.21 |
| Including: revenue | 1,913,757,582.21 | | 1,913,757,582.21 |
| II. Total operating cost | 1,970,493,358.51 | | 1,970,493,358.51 |
| Including: Operating cost | 1,817,080,987.31 | | 1,817,080,987.31 |
| Business taxes and surcharges | 1,100,668.49 | | 1,100,668.49 |
| Sales expenses | 30,113,822.09 | | 30,113,822.09 |
| Administrative expenses | 41,114,282.88 | | 41,114,282.88 |
| Finance costs | 76,267,413.15 | | 76,267,413.15 |
| Impairment loss of assets | 4,816,184.59 | | 4,816,184.59 |
| Add: Gain on changes in fair value (loss is denoted as “()”) | -4,228,219.07 | | -4,228,219.07 |
| Gain on investment (loss is denoted as “()”) | 1,673,329,851.91 | 1,665,999,999.00 | 7,329,852.91 |
| Including: Gain on investment to associates and joint ventures | 7,132,805.96 | | 7,132,805.96 |
| III. Operating profit (loss is denoted as “-”) | 1,612,365,856.54 | 1,665,999,999.00 | -53,634,142.46 |
| Add: Non-operating income | 974,744.45 | | 974,744.45 |
| Including: Gain on disposal of non-current assets | — | | — |
| Less: Non-operating expenses | 215,805.01 | | 215,805.01 |
| Including: Loss on disposal of non-current assets | 101,032.84 | | 101,032.84 |
| IV. Total Profit (total loss is denoted as “-”) | 1,613,124,795.98 | 1,665,999,999.00 | -52,875,203.02 |
| Less: Income tax expenses | 30,223,169.63 | | 30,223,169.63 |
| V. Net profit (net loss is denoted as “-”) | 1,582,901,626.35 | 1,665,999,999.00 | -83,098,372.65 |
| Net profit attributable to shareholders of the Company | 1,582,901,846.98 | 1,665,999,999.00 | -83,098,152.02 |
| Profit or loss attributable to minority interests | -220.63 | | -220.63 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

| Item | Pro forma income statement of the Group for the year of 2015 (1) | Pro forma adjustments Taiji Computer Shares being repurchased by Taiji Computer (2) | Pro forma income statement after repurchase by Taiji Computer for the year of 2015 (3) = (1) - (2) |
|--|--|---|--|
| VI. Other comprehensive income net of tax | -173,225.12 | — | -173,225.12 |
| (II) Other comprehensive income which will be reclassified to profit or loss | -173,225.12 | — | -173,225.12 |
| 1. Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method | -173,225.12 | | -173,225.12 |
| VII. Total comprehensive income | 1,582,901,626.35 | 1,665,999,999.00 | -83,098,372.65 |
| Total comprehensive income attributable to shareholders of the Company | 1,582,901,846.98 | 1,665,999,999.00 | -83,098,152.02 |
| Total comprehensive income attributable to minority interests | -220.63 | — | -220.63 |
| VIII. Earnings per share: | | | |
| (I) Basic earnings per share | 0.0875 | | |
| (II) Diluted earnings per share | 0.0875 | | |

3. Unaudited pro forma cash flow statement of the remaining business after the disposal of Taiji Computer Shares involved in the Buy-back Option

| Item | Cash Flow Statement of the Group for the year of 2015 (1) | Pro forma adjustments Taiji Computer Shares being repurchased by Taiji Computer (2) | Pro forma cash flow statement after repurchase by Taiji Computer for the year of 2015 (3) = (1) – (2) |
|--|---|---|---|
| I. Cash flows generated from operating activities: | | | |
| Cash received from sale of goods and rendering of services | 1,989,983,879.88 | | 1,989,983,879.88 |
| Refund of taxes and levies received | 89,000.00 | | 89,000.00 |
| Other cash receipts relating to operating activities | 104,415,272.76 | | 104,415,272.76 |
| Sub-total of cash inflows from operating activities | 2,094,488,152.64 | | 2,094,488,152.64 |
| Cash paid for purchase of goods and receiving services | 2,041,271,329.52 | | 2,041,271,329.52 |
| Cash paid to and on behalf of employees | 23,621,083.89 | | 23,621,083.89 |
| Payments of taxes and levies | 53,215,709.61 | | 53,215,709.61 |
| Other cash payments relating to operating activities | 34,404,375.73 | | 34,404,375.73 |
| Sub-total of cash outflows from operating activities | 2,152,512,498.75 | | 2,152,512,498.75 |
| Net cash flows generated from operating activities | -58,024,346.11 | | -58,024,346.11 |
| II. Cash flows generated from investing activities: | | | |
| Cash received from recovery of investments | 1,000,000.00 | | 1,000,000.00 |
| Cash received from returns on investments | 197,045.95 | | 197,045.95 |
| Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets | 128,883.67 | | 128,883.67 |
| Net cash received from disposal of subsidiaries and other business units | 251,200,000.00 | 249,899,999.00 | 1,300,001.00 |
| Sub-total cash inflows from investing activities | 252,525,929.62 | | 2,625,930.62 |
| Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets | 68,092,725.00 | | 68,092,725.00 |
| Cash paid on investments | 11,440,000.00 | | 11,440,000.00 |
| Sub-total cash outflows from investing activities | 79,532,725.00 | | 79,532,725.00 |
| Net cash flows generated from investing activities | 172,993,204.62 | | -76,906,794.38 |
| III. Cash flows generated from financing activities: | | | |
| Cash received from loans | 2,788,946,091.43 | | 2,788,946,091.43 |
| Sub-total cash inflows from financing activities | 2,788,946,091.43 | — | 2,788,946,091.43 |
| Cash payments for settlement of debts | 2,565,992,270.52 | | 2,565,992,270.52 |
| Cash payments for distribution of dividend, profits or interests settlement | 66,240,657.42 | | 66,240,657.42 |
| Other cash payments relating to financing activities | 158,649,175.16 | | 158,649,175.16 |
| Sub-total cash outflows from financing activities | 2,790,882,103.10 | | 2,790,882,103.10 |
| Net cash flows generated from financing activities | -1,936,011.67 | | -1,936,011.67 |
| IV. Effect of changes in exchange rate on cash and cash equivalents | 7,481,108.88 | | 7,481,108.88 |
| V. Net increase in cash and cash equivalents | 120,513,955.72 | | -129,386,043.28 |
| Add: Balance of cash and cash equivalents at beginning of period | 362,701,516.65 | | 362,701,516.65 |
| VI. Balance of cash and cash equivalents at end of period | 483,215,472.37 | | 233,315,473.37 |

**C. INDEPENDENT REPORTING ACCOUNTANT’S REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the English translation of the text of a report received from ShineWing Certified Public Accountants (Special General Partnership), an independent reporting accountant, prepared for the purpose of incorporation in this circular.



信永中和
会计师事务所
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8号富华大厦A座9层
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100027, P.R.China

REVIEW REPORT

XYZH/2016SZA10167

Board of Directors of Powerleader Science & Technology Group Limited:

We issue the report on the attached unaudited pro forma financial information in relation to the proposed disposal of servers and software business of Powerleader Science & Technology Group Limited (hereinafter referred to as “**Your Group**”), including Unaudited Pro Forma Consolidated Balance Sheet as at 31 December 2015, Unaudited Pro Forma Consolidated Income Statement, Unaudited Pro Forma Consolidated Cash Flow Statement for the year 2015 and relevant notes. The applicable standards adopted when the board of directors when preparing the unaudited pro forma financial information are described in section A(1) of appendix 5 of the circular.

Unaudited pro forma financial information are compiled by the board of directors to describe the impact on Your Group’s financial position as of 31 December 2015 and cash flow as at 31 December 2015, as if the transactions completed on 1 January 2015.

**I. BOARD OF DIRECTORS’ RESPONSIBILITIES TO PRO FORMA FINANCIAL
STATEMENTS FOR REFERENCE**

It is the responsibilities of the board of directors of Your Group to prepare the unaudited pro forma financial information according to “Accounting Standards for Business Enterprises”, Rule 7.31(1) of GEM Listing Rules and fair presentation requirements.

II. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS

Our responsibility is to express opinions on unaudited pro forma financial information as required by Rule 7.31(1) of GEM Listing Rules and report to you. We do not accept any responsibility for any reports previously issued by us on any financial information used for preparing the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their use.

We conducted audit according to the Chinese Certified Public Accountant Auditing Standards. Chinese Certified Public Accountant Auditing Standards requires us to abide by Chinese Certified Public Accountants' rules of professional conduct, to plan and conduct work so as to obtain reasonable assurance that whether the board of directors have prepared the unaudited pro forma financial information according to the requirements of Rule 7.31(1) of GEM Listing Rules and "Accounting Standards for Business Enterprises".

We are not responsible for updating or reissuing any report or opinions on any historical financial information used for preparing the unaudited pro forma financial information, nor have we, performed an audit or review the financial information used for preparing unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the circular is solely to illustrate the impact of certain significant event or transaction on unadjusted financial statements of Your Group, as if the event or transaction had already occurred on the specified date or earlier. Therefore, we do not provide any assurance on whether the actual outcome of the event or transaction as at 31 December 2015 or 1 January 2015 as presented.

To decide whether reasonable assurance is obtained on whether the preparation of the unaudited pro forma financial information has been properly prepared according to applicable standards, whether the directors have used applicable standards to prepare the unaudited pro forma financial statements for presenting the significant impact attributable to the event or transaction, sufficient and proper evidence must be obtained as regards the following matters:

1. whether relevant pro forma adjustments are properly prepared according to those standards; and
2. whether unaudited pro forma financial information have presented proper adjustments made to unadjusted financial information.

The procedures selected depend on the judgment of reporting accountant having taken into account that the reporting accountant's understanding of the nature of Your Group and the understanding of event or transaction in respect of the preparation of unaudited pro forma financial statements and other relevant engagement circumstances.

The engagement also includes evaluating the overall presentation method of unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and proper, which has provide basis for us to express opinion.

III. OPINION

In our opinion:

- (1) Unaudited pro forma financial information has been prepared according to the basis as stated;
- (2) Such basis is consistent with Your Group’s accounting policy; and
- (3) the relevant adjustments are appropriate for the purpose of the pro forma financial information as disclosed according to Rule 7.31(1) of GEM Listing Rules.

ShineWing Certified Public Accountants
(special general partnership)

Chinese Certified Public Accountant:
Guo Jinlong

Chinese Certified Public Accountant:
Qiu Lequn

Beijing, China

11 May, 2016

(A) LETTER FROM THE REPORTING ACCOUNTANT

The following is the English translation of the text of a letter received from ShineWing Certified Public Accountants (Special General Partnership), an independent reporting accountant, prepared for the purpose of incorporation in this circular.



信永中和
会计师事务所
北京市东城区朝阳门北大街
8号富华大厦A座9层
9/F, Block A, Fu Hua Mansion,
No. 8, ChaoyangmenBeidajie,
Dongcheng District, Beijing,
100027, P.R.China

INDEPENDENT ASSURANCE REPORT

XYZH/2016SZA10166

Board of Directors of Powerleader Science & Technology Group Limited:

We have been engaged to review the accounting policies adopted and calculations of the relevant profit forecast (the “**Profit Forecast**”) to the asset valuation report dated 25 January 2016 prepared by Zhongshuizhiyuan Assets Appraisal Co., Ltd (中水致遠資產評估有限公司) (ZSZYPBZ [2016] No. 1012) (the “**Valuation Report**”) in respect of the proposed sale of Shenzhen Powerleader Computing System Limited (深圳市宝德計算機系統有限公司) (“**Powerleader Computing**”) by Powerleader Science & Technology Group Limited (the “**Company**”) and Shenzhen Powerleader Cloud Computing Research Institute Limited (深圳市宝德雲計算研究院有限公司).

I. RESPONSIBILITIES OF THE COMPANY’S DIRECTORS

The Company’s directors (the “**Directors**”) are solely responsible for the preparation of the Valuation Report, which adopts income approach to assess Powerleader Computing and is deemed to be a profit forecast (including the assumption). The relevant Profit Forecast has been prepared using a set of assumptions that include hypothetical assumption about future events and management’s actions that are not necessarily expected to occur. Even if the events anticipated occur, actual results are still likely to be different from the relevant forecast and the variation may be material. The Directors are responsible for the reasonableness and validity of the assumptions.

II. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANT

It is our responsibility to form an opinion, based on our review on the relevant Profit Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 19.62 of Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and for no other purpose.

We have not reviewed, considered or conducted any work on the reasonableness and the validity of the assumptions relied by the relevant forecast and express no opinion on the same. We accept no responsibility to any other person.

We conducted our work in accordance with the “PRC CPA Standards on Other Assurance Engagements No. 3101 — Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”, the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Review of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants and with reference to the procedures specified in Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts”. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the relevant forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the relevant forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the assumptions made by the Directors. Our work does not constitute any valuation of Powerleader Computing.

III. OUR OPINIONS

In our opinion, so far as the accounting policies and calculations are concerned, the relevant Profit Forecast has been properly compiled in accordance with the assumptions made by the Directors and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

ShineWing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant:
Guo Jinlong

Chinese Certified Public Accountant:
Qiu Lequn

Beijing, China

11 May, 2016

(B) LETTER FROM THE BOARD

11 May 2016

The Stock Exchange of Hong Kong Limited,
11th Floor, One International Finance Centre,
1 Harbour View Street,
Central, Hong Kong

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND VERY SUBSTANTIAL ACQUISITION

We refer to the valuation of the market value of the entire interest in Shenzhen Powerleader Computing System Limited* (深圳市宝德计算机系统有限公司), a company established in the People's Republic of China, by Zhongshuizhiyuan Assets Appraisal Co., Ltd (the "Valuer") as at 31 July 2015 (the "Valuation").

We understand that in accordance with Rule 19.61 of the Rules Governing the Listing Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the discounted cash flow basis adopted by the Valuer has rendered the Valuation a profit forecast ("Profit Forecast") under the GEM Listing Rules.

We hereby confirm that the Profit Forecast has been made after due and careful enquiry.

By Order of the Board
Zhang Yunxia
(張雲霞)
Chairman

* For identification purpose only

The following is the English translation of the text of the valuation report issued by Zhongshui Zhiyuan Assets Appraisal Co. Ltd. on Powerleader Computing as referred to in the Letter from the Board in this circular.

CERTIFIED PUBLIC VALUER'S DISCLAIMER

- I. In carrying out the assets valuation according to the relevant laws and regulations and the asset valuation standards, we adhere to the principle of independence, objectiveness and fairness. Based on the information collected in the course of our valuation exercise, the contents stated in the valuation report are objective, and we undertake corresponding legal responsibilities for the reasonableness of the conclusion of the valuation.
- II. Lists of assets and liabilities related to the valuation subject have been provided and declared by the principal and the valued entity with their signatures and seals. The principal and related parties shall be responsible for the authenticity, legality and integrity of the necessary data provided by them as well as the appropriate usage of the valuation report.
- III. We do not have any present or expected interests in the valuation subject mentioned in the valuation report and we do not have any present or expected relationship of interest with or prejudices against any related parties.
- IV. We have carried out on-site investigation on the valuation subject and related assets thereof that are mentioned in the valuation report. We have paid due attention to the legal ownership of the valuation subject and the related assets thereof, verified corresponding materials and faithfully disclosed any findings. However, this report does not serve as the proof of ownership.
- V. The valuation conclusions of the report are the professional valuation opinions on the market value of the valuation subject as at the Valuation Base Date upon analysis and estimates by the appraisal agency and professional valuers in compliance with relevant national laws, regulations and guidelines for the valuation of assets. The valuation conclusion of the report shall not be construed as a guarantee of the realisable value of the valuation subject. The analysis, judgment, and conclusions in the valuation report issued by us are restricted by the assumptions and limiting conditions set out in the valuation report. Users of this report shall give due consideration to the assumptions, limiting conditions, and explanations for specific issues stated in the valuation report as well as their impacts on the valuation conclusions.

ASSETS APPRAISAL REPORT
IN RESPECT OF SHAREHOLDERS' ENTIRE EQUITY IN SHENZHEN
POWERLEADER COMPUTING SYSTEM CO., LTD INVOLVED IN PROPOSED
ISSUE OF SHARES AND PAYMENT OF CASH TO PURCHASE ASSETS AND RAISE
CORRESPONDING FUNDS BY TAIJI COMPUTER CORPORATION LIMITED
ZHONG SHUI ZHI YUAN PING BAO ZI [2016] NO. 1012
SUMMARY

In respect of the proposed issue of shares and payment of cash to purchase assets and raise corresponding funds by Taiji Computer Corporation Limited, ZHONGSHUI ZHIYUAN ASSETS APPRAISAL CO., LTD has accepted the commission of Taiji Computer Corporation Limited to assess the market value of entire equity of shareholders in Shenzhen Powerleader Computing System Co., Ltd involved in the above economic behavior as a reference for the value of the economic behavior. The summary of the main contents of this Asset Appraisal Report is hereby outlined below.

- I. **Valuation purpose:** To assess the market value of entire equity of shareholders in Shenzhen Powerleader Computing System Co., Ltd on the Valuation Base Date to provide a reference for the value of the economic behavior for the proposed issue of shares and payment of cash to purchase assets and raise corresponding funds by Taiji Computer Corporation Limited.
- II. **Target and scope of valuation:** The valuation subject is the entire equity of shareholders in Shenzhen Powerleader Computing System Co., Ltd; scope of valuation is all audited assets and liabilities of Shenzhen Powerleader Computing System Co., Ltd as at the Valuation Base Date. In accordance with the financial statements as at the Valuation Base Date audited by Union Power CPAs Co., Ltd (Special General Partnership), based on the parent company of Shenzhen Powerleader Computing System Co., Ltd, the total book value of assets was RMB710.4423 million, the total book value of liabilities was RMB515.2325 million, and the book value of net assets was RMB195.2099 million; on a consolidated basis, the total book value of assets was RMB721.6359 million, the total book value of liabilities was RMB467.0979 million, and the book value of net assets was RMB254.5380 million; among which, the book value of net assets attributable to the parent company was RMB254.538 million.
- III. **Value type and its definition:** The value type of this asset appraisal was market value, which is the valuation amount of the value if a normal fair transaction was made on the Valuation Base Date by the valuation subject under the circumstances where the buying party and selling party both act willingly and sensibly without being forced.
- IV. **Valuation Base Date:** 31 July 2015.
- V. **Valuation methods:** market approach and income approach are adopted and the valuation conclusion adopts the valuation results of the income approach.

VI. **Valuation conclusion:** Upon valuation, under the assumptions of the report, the assessed value of entire equity of shareholders in Shenzhen Powerleader Computing System Co., Ltd was **RMB1,681.7917 million** (in words: **RMB One Thousand Six Hundred and Eighty One Million Point Seven Nine One Seven**).

VII. **Appraisal Report Validity:** According to relevant regulations, the valuation conclusion of this report shall remain valid for one year from the Valuation Base Date to 30 July 2016.

VIII. **Special matters:** When using the valuation conclusion, users of this report shall give attention and due consideration to the assumptions, restrictions, and special matters as stated in the text of the report as well as their impacts on the valuation conclusions.

The valuation conclusion shall only serve for the agreed valuation purpose in the report. The appraisal company and its undersigned certified public valuer shall not be responsible for any consequences of improper use of the report by users.

The above contents are extracted from the full text of the Assets Appraisal Report and established under the assumptions defined by the Assets Appraisal Report. To have a full understanding of the valuation project, please carefully read the full text of the Assets Appraisal Report.

ASSETS APPRAISAL REPORT
IN RESPECT OF SHAREHOLDERS' ENTIRE EQUITY IN SHENZHEN
POWERLEADER COMPUTING SYSTEM CO., LTD INVOLVED IN PROPOSED
ISSUE OF SHARES AND PAYMENT OF CASH TO PURCHASE ASSETS AND RAISE
CORRESPONDING FUNDS BY TAIJI COMPUTER CORPORATION LIMITED
ZHONG SHUI ZHI YUAN PING BAO ZI [2016] NO. 1012
FULL TEXT

Taiji Computer Corporation Limited:

ZHONGSHUI ZHIYUAN ASSETS APPRAISAL CO., LTD has accepted the commission of the Company to assess the entire equity of shareholders in Shenzhen Powerleader Computing System Co., Ltd involved in the proposed issue of shares and payment of cash to purchase assets and raise corresponding funds by Taiji Computer System Co., Ltd based on the national regulations regarding assets valuation and on the principle of being independent, objective, and justified in accordance with the recognized assets valuation methods. Our valuers carried out on-site investigation, market research, and enquiring to the commissioned assets and related liabilities for valuation in accordance with the necessary valuation procedures and reflected the market value of the valuation subject as at the Valuation Base Date. The assets valuation and valuation results are hereby reported as follows.

I. THE PRINCIPAL, THE VALUED ENTITY AND OTHER VALUATION REPORT USERS OTHER THAN THE PRINCIPAL

The Principal of this project is Taiji Computer Corporation Limited and the Valued Entity is Shenzhen Powerleader Computing System Co., Ltd.

(I) Overview of the Principal

| | |
|-----------------------|---|
| Company name: | Taiji Computer Co., Ltd. (hereinafter referred to as Taiji Computer) |
| Company type: | Other limited liability company (listed) |
| Stock code: | 002368 |
| Address: | No. 211, North Fourth Ring Road Central, Haidian District, Beijing |
| Legal representative: | Li Jianming |
| Registered capital: | RMB415,597,227 |
| Established: | 10 October 1987 |
| Operating period: | from 29 September 2002 to the long-term |

Business scope: Development, design, manufacture, sales, and maintenance of computer and peripheral equipment, integrated circuits, software and communications equipment technology; undertake computer network and application engineering; information systems integration, electronic systems engineering, intelligent building engineering design, technical consulting and installation; contractor; security engineering design and installation; provision of information systems planning, design, assessment, consulting; proprietary trading and serving as an agent of import and export of various goods and technologies, but except for the import and export of goods and technologies as limited or prohibited by the state (for legally approved projects, carry out business activities in accordance with the approved contents upon approval by the relevant department).

(II) Introduction of the Valued Entity

1. Overview

Company name: Shenzhen Powerleader Computing System Co., Ltd (hereinafter referred to as: Powerleader Computing)

Date of Establishment: 8 October 2003

Registered Address: Block C, Electronics Science & Technology Building to the West of Shennan Road Central and Huafa Road North, Futian District, Shenzhen

Current Office Address: 2F, Powerleader Science & Technology Park R&D Building, Guanyi Road No. 3, Guanlan Hi-Tech Industrial Park, Shenzhen

Registered capital: (RMB)38,000,000

Enterprise nature: Limited Liability Company

Legal representative: Dong Weiping

Business scope: Production, development, and sales of computer software, hardware and peripherals, computer accessories, electronics, electrical appliances, and communications products (production is conducted by the branch), computer systems integration (excluding limited items and the franchised, controlled and monopolized commodities); goods and technology import and export business (excluding items prohibited by laws, administrative regulations, and decisions of the State Council; limited items shall be operated after obtaining permission).

2. Company History

In October 2003, POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED (later renamed as POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED (hereinafter referred to as “POWERLEADER SCIENCE & TECHNOLOGY”)) and 深圳市信鼎通實業有限公司 (renamed as 深圳市網誠科技有限公司 in February 2008) jointly funded the establishment of 深圳市寶鼎電子有限公司, with the registered capital of RMB10 million; in May 2005, 深圳市寶鼎電子有限公司 changed its name to Shenzhen Powerleader Computing System Co., Ltd. Its ownership structure was as follows:

| No. | Name of shareholder | Amount of contribution (RMB in millions) | Ratio of contribution |
|--------------|--|---|-----------------------|
| 1 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | 900.00 | 90.00% |
| 2 | 深圳市信鼎通實業有限公司 | <u>100.00</u> | <u>10.00%</u> |
| Total | | <u><u>1,000.00</u></u> | <u><u>100.00%</u></u> |

In January 2007, 深圳市信鼎通實業有限公司 and POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED signed an agreement to transfer 9.5% of the equity it holds in Powerleader Computing to POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED. Upon completion of the transfer, its ownership structure was as follows:

| No. | Name of shareholder | Amount of contribution (RMB in millions) | Ratio of contribution |
|--------------|--|---|-----------------------|
| 1 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | 995.00 | 99.50% |
| 2 | 深圳市信鼎通實業有限公司 | <u>5.00</u> | <u>0.50%</u> |
| Total | | <u><u>1,000.00</u></u> | <u><u>100.00%</u></u> |

In February 2009, 深圳市網誠科技有限公司 (formerly known as 深圳市信鼎通實業有限公司) and Powerleader Investment Holding Company Limited entered into an agreement to transfer 0.5% of the equity it holds in Powerleader Computing to Powerleader Investment Holding Company Limited. Upon completion of the transfer, its ownership structure was as follows:

| No. | Name of shareholder | Amount of contribution (RMB in millions) | Ratio of contribution |
|--------------|---|---|-----------------------|
| 1 | Shenzhen Powerleader Science & Technology Group Limited | 995.00 | 99.50% |
| 2 | Powerleader Investment Holding Company Limited | <u>5.00</u> | <u>0.50%</u> |
| Total | | <u><u>1,000.00</u></u> | <u><u>100.00%</u></u> |

In February 2010, resolution of the shareholders meeting of Powerleader Computing agreed to convert the capital reserve of RMB26 million to share capital. After the completion of capital increase, the registered capital of Powerleader Computing increased from RMB10 million to RMB36 million. After the capital increase, its shareholding structure was as follows:

| No. | Name of shareholder | Amount of contribution (RMB in millions) | Ratio of contribution |
|--------------|---|---|-----------------------|
| 1 | Shenzhen Powerleader Science & Technology Group Limited | 3,582.00 | 99.50% |
| 2 | Powerleader Investment Holding Company Limited | <u>18.00</u> | <u>0.50%</u> |
| Total | | <u><u>3,600.00</u></u> | <u><u>100.00%</u></u> |

In September 2010, resolution of the shareholders meeting of Powerleader Computing agreed capital increase of RMB2 million by 深圳市和誠博創科技有限公司 to Powerleader Computing. After the capital increase was completed, the registered capital of Powerleader Computing was changed to RMB38 million. After the capital increase was completed, the shareholding structure of Powerleader Computing was as follows:

| No. | Name of shareholder | Amount of contribution (RMB in millions) | Ratio of contribution |
|--------------|---|---|-----------------------|
| 1 | Shenzhen Powerleader Science & Technology Group Limited | 3,582.00 | 94.27% |
| 2 | Powerleader Investment Holding Company Limited | 18.00 | 0.47% |
| 3 | 深圳市和誠博創科技有限公司 | 200.00 | 5.26% |
| Total | | <u>3,800.00</u> | <u>100.00%</u> |

In March 2011, resolution of the shareholders meeting of Powerleader Computing agreed to transfer 0.47% of the equity held by Powerleader Investment Holding Company Limited in Powerleader Computing to Shenzhen Powerleader Science & Technology Group Limited at a consideration of RMB200,000, and agreed to transfer 5.26% of the equity held by 深圳市和誠博創科技有限公司 in Powerleader Computing to Shenzhen Powerleader Science & Technology Group Limited at a consideration of RMB2.6 million. Upon completion of the transfer, POWERLEADER SCIENCE & TECHNOLOGY held 100% equity of Powerleader Computing. As of the reference date, the shareholding structure of Powerleader Computing was as follows:

| No. | Name of shareholder | Amount of contribution (RMB in millions) | Ratio of contribution |
|--------------|---|---|-----------------------|
| 1 | Shenzhen Powerleader Science & Technology Group Limited | 3,800.00 | 100.00% |
| Total | | <u>3,800.00</u> | <u>100.00%</u> |

3. Business scope and main operating results

Powerleader Computing was established in 2003 and mainly engaged in the research and development, production, and sales of Powerleader brand servers and corresponding solutions. After years of development, it ranked leading position in the domestic server sales and top 10 enterprises in the Asia-Pacific region, becoming an elite enterprise in China's server industry.

Powerleader has diversified types and complete models of cloud server products, capable of offering business and services including the whole machine system, common cloud server products, cloud storage servers, high-density cloud computing servers, High Performance Cluster (HPC), MSS series of video surveillance cloud servers, Loongson series servers, cloud storage products, Industrial Personal Computer, military computers, minicomputers, server-based industry solutions, application software, and large-scale systems development; through favorable combination of hardware and software products, plus application solutions, Powerleader help customers build a solid cloud computing infrastructure.

The main business model of Powerleader is “on-demand” mode of production, “sub-direct” sales model and vendor-class “one-stop” service; and its marketing services agency and more than 700 employees in the 31 cities nationwide offer products, one-stop services and tailored overall solutions for customers throughout the country. Powerleader masters the core technology of production, has improved security controllable industry chain to achieve completely independent research and development from the board level to the whole machine system and on-demand tailor, to ensure self-control of products, continuous innovation and self-control of technology, accelerate Chinese information security control; enterprise customers are mainly engaged in the Internet, government, education, broadcasting & TV, military, transportation, medical, telecommunications, finance, taxation, power and other industries.

Union Power CPAs Co., Ltd (Special General Partnership) audited the 2-year plus a stub period financial statements of Powerleader Computing up to the Valuation Base Date and for the two preceding years and issued the “Zhong Huan Zhuan Zi (2015) 021894” audit report with standard and unqualified opinions. The principal assets and operating conditions of Powerleader Computing (parent company) as at the Valuation Base Date and previous two years are set forth in the following table:

Financial position and operating results up to the Valuation Base Date and for the previous two years

Unit: RMB0'000

| Item | 31 July 2015 | 31 December 2014 | 31 December 2013 |
|-----------------------------|-------------------------|-----------------------------|-----------------------------|
| Current assets | 63,499.20 | 53,625.86 | 40,103.81 |
| Long-term receivables | | | |
| Long-term equity investment | 3,306.81 | 3,306.81 | 3,306.81 |
| Net fixed assets | 736.18 | 851.33 | 829.51 |
| Construction in progress | | | |
| Intangible assets | <u>2,027.92</u> | <u>2,698.15</u> | <u>661.14</u> |
| Total assets | <u>71,044.23</u> | <u>61,426.94</u> | <u>47,929.49</u> |
| Liabilities | 51,523.25 | 44,461.57 | 35,437.66 |
| Net assets | <u>19,520.99</u> | <u>16,965.37</u> | <u>12,491.82</u> |

| Item | January– July 2015 | 2014 | 2013 |
|---------------------|------------------------|------------------------|------------------------|
| Operating income | 38,395.53 | 48,094.19 | 36,694.24 |
| Operating profit | <u>3,105.66</u> | <u>4,953.35</u> | <u>2,499.03</u> |
| Total profit | <u>3,135.48</u> | <u>5,128.50</u> | <u>2,558.15</u> |
| Net profit | <u>2,555.62</u> | <u>4,473.54</u> | <u>2,486.73</u> |

4. Basic information of wholly owned or holding subsidiaries under the scope of valuation

As at the Valuation Base Date, the net book value of long-term equity investment of Powerleader Computing was RMB33.0681 million, which is 100% of the equity of Shenzhen Powerleader Software Development Co., Ltd. held by Powerleader Computing. The basic information of Shenzhen Powerleader Software Development Co., Ltd. is as follows:

| No. | Company name | Registered place | Company type | Registered capital | Main business scope | Legal representative | Percentage of shareholding % |
|-----|---|--|---------------------------|--------------------|---|----------------------|------------------------------|
| 1 | Shenzhen Powerleader Software Development Co., Ltd. | Room 406, 4/F, R&D Center, Guanlan Hi-tech Park, Guanlan Street, Bao'an District, Shenzhen | Limited liability company | RMB10,000,000 | Computer hardware and software development, network technology development (excluding provision of Internet access services), hardware, embedded software and system development. | Ma Zhumao | 100% |

Shenzhen Powerleader Software Development Co., Ltd. is currently operating in its normal course; see valuation instructions of Shenzhen Powerleader Software Development Co., Ltd for details.

(IV) The Principal and other Valuation Report Users as Prescribed in the Engagement Letter

Users of the Appraisal Report are the Principal and the relevant regulatory authorities specified in accordance with national laws and regulations.

Unless otherwise specified by the provisions of PRC laws and regulations, any institutions or individuals without being confirmed by the appraisal bodies and the Principal shall not be users of the Appraisal Report due to obtaining the Appraisal Report.

(V) The relations between the Principal and the Valued Entity

The Principal of the project is Taiji Computer Corporation Limited, which is proposed to issue shares and pays cash to purchase assets and raise corresponding funds; the Valued Entity is Shenzhen Powerleader Computing System Co., Ltd, which is one of the units proposed to purchase the assets.

II. VALUATION PURPOSE

According to the “Notice Given by CETC to Group Corporation on 2015 Equity Investment and Equity Financing Plan Adjustment Program” (Dian Ke Zi [2015] No. 411) and the “Resolution of the 42th Meeting of the Fourth Board of Directors of Taiji Computer Corporation Limited” (22 December 2015), with regard to the proposed issue of shares and payment of cash to purchase assets and raise corresponding funds by Taiji Computer Corporation Limited, ZHONGSHUI ZHIYUAN ASSETS APPRAISAL CO., LTD has accepted the commission of Taiji Computer Corporation Limited to assess the market value of entire equity of shareholders in Shenzhen Powerleader Computing System Co., Ltd involved in the above economic behavior as a reference for the value of the economic behavior.

III. VALUATION SUBJECT AND SCOPE

(I) Valuation subject

The valuation subject is entire equity of shareholders in Powerleader Computing.

(II) Scope of valuation

The scope of valuation of the project is all the audited assets and liabilities of Powerleader Computing. As at the Valuation Base Date, upon audit by Union Power CPAs Co., Ltd (Special General Partnership), based on the parent company, the total book value of assets was RMB710.4423 million, the total book value of liabilities was RMB515.2325 million, and the book value of net assets was RMB195.2099 million; on a consolidated basis, the total book value of assets was RMB721.6359 million, the total book value of liabilities was RMB467.0979 million, and the book value of net assets was RMB254.5380 million; among which, the book value of net assets attributable to the parent company was RMB254.538 million.

According to the assets and liabilities (the same below) based on the parent company, the specific type of commissioned assets and liabilities includes current assets, non-current assets, current liabilities and non-current liabilities. Wherein current assets include monetary funds, notes receivable, accounts receivable, prepayments, other receivables, inventories and other current assets; non-current assets include long-term equity investment, fixed assets, intangible assets, development expenses and deferred tax assets; current liabilities including accounts payable, advance from customers, accrued wages payable, taxes payable, other payables and other current liabilities; non-current liabilities include deferred income.

APPENDIX VII VALUATION REPORT OF POWERLEADER COMPUTING

The following table sets forth the book value of assets and liabilities under the scope of valuation as at the Valuation Base Date:

Unit: RMB'000

| Item | | Book value |
|--|-----------|-------------------------|
| Total current assets | 1 | 63,499.20 |
| Total non-current assets | 2 | 7,545.03 |
| Among: long-term equity investment | 3 | 3,306.81 |
| Investment property | 4 | — |
| fixed assets | 5 | 736.18 |
| Construction in progress | 6 | — |
| intangible assets | 7 | 2,027.92 |
| Among: intangible assets-land use rights | 8 | — |
| Other non-current assets | 9 | <u>1,474.12</u> |
| Total assets | 10 | <u>71,044.23</u> |
| Current liabilities | 11 | 50,897.29 |
| Non-current liabilities | 12 | <u>625.96</u> |
| Total liabilities | 13 | <u>51,523.25</u> |
| Net assets | 14 | <u>19,520.99</u> |

(III) Legal ownership status, economic status and physical condition of main assets within the scope of valuation

The main commissioned assets: monetary funds, notes receivable, accounts receivable, prepayments, other receivables, inventories, other current assets, long-term equity investment, fixed assets, intangible assets, development expenses and deferred tax assets. Specifically:

1. The book value of monetary fund was RMB2.9433 million, which included cash and bank deposits.
2. The book value of notes receivable was RMB70,640,000, which included unexpired interest-free banking acceptance draft obtained by the enterprise.
3. The book value of accounts receivable was RMB298.0538 million, which included payment for goods receivable.
4. The book value of prepayments was RMB21.9022 million, which mainly included the prepaid procurement amount of raw materials.
5. The net book value of other receivables was RMB201.1194 million, which included related company borrowings, employees personal deposits, etc..

6. The net book value of inventories was RMB109.2145 million; inventories include material procurement, raw materials, consigned processing materials, delivered commodities, finished products and unfinished products. Material procurement was the procurement of servers; raw materials were main materials and auxiliary materials for production; commissioned processing materials were mainly electronic components which were commissioned to 深圳市湘華電子有限公司 for production; consigned processing materials were motherboards, servers, etc., which have been delivered but not carry over costs; unfinished products were raw materials used for production which have been acquired by the enterprise; finished products were mainly motherboards, servers, etc. produced by the enterprise.
7. The book value of other current assets was RMB1.0525 million, which included the withholding freight and rent of enterprise as at the Valuation Base Date.
8. The net book value of long-term equity investment was RMB33.0681 million, which was a subsidiary Shenzhen Powerleader Software Development Co., Ltd invested by the enterprise.
9. The net book value of fixed assets was RMB7.3618 million, which included machinery and equipment, vehicles and electronic equipment required by office and production.
10. The book value of intangible assets was RMB20.2792 million, which included outsourced software and military tailored 4-way server (5U-600 Project) used for production, management and office, high-performance fault-tolerant 4-way servers and gaming cloud service center patent.
11. The book value of development expenses was RMB11.94.59 million, which included expenses for 8-way server (Mirs Bay Project), high-end 4-way server (Big Bell Temple Project), the next generation of dual-way server (Shiyan Lake Project), military tailored 4-way server (6U-400 Project) and other projects.
12. The book value of deferred tax assets was RMB2.7953 million, which mainly included withdrawing deferred income of government subsidies and deferred tax assets due to provision for bad debts.

(IV) The type, quantity, and legal ownership status of intangible assets recorded or unrecorded on the book value declared by the enterprise

Intangible assets declared by Powerleader Computing for the appraisal include outsourced software and hardware recorded on the book value. Intangible assets unrecorded on the book value include trademarks and proprietary technology.

1. *Intangible assets recorded on the book value*

Intangible assets recorded on the book value declared by Powerleader Computing for the appraisal include outsourced software and self-developed software. The original recorded value of intangible assets as at the Valuation Base Date was RMB32,754,336.86, and the book value after amortization was RMB20,279,241.54.


Intangible assets declared by Powerleader Computing include outsourced office and financial software required for production and office, a total of 11 items. The original recorded value of the software was RMB32,754,336.86, and the book value after amortization was RMB20,279,241.54. After inventory verification, software included in the scope of valuation is in normal use.

2. *Intangible assets unrecorded on the book value*

Intangible assets unrecorded on the book value declared by Powerleader Computing for the appraisal were six registered trademarks used in production and operation, 35 patented technologies which have been authorized or under review, and 17 Software Copyrights. Among which, six registered trademarks and eight Software Copyrights were transferred by the parent company POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED to Powerleader Computing for use and the change of the name of the right holder is undergoing; two Software Copyrights are jointly owned by the parent company POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED and Powerleader Computing; two Patents for Invention are jointly owned by Powerleader Computing and East China University of Science and Technology; nine patented technologies were transferred by POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED to Powerleader Computing for use, and the change of the name of the right holder is undergoing. These have no book value.

(1) Registered trademark

There are six registered trademarks declared by Powerleader Computing for the appraisal, which were transferred by POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED to Powerleader Computing for use, and the change of the name of the right holder is undergoing. The details are as follows:

| No. | Company name | Brand name | Trademark logo | Registration time | Certificate No. | Product name corresponding to the trademark |
|-----|--|-------------|---|-------------------|-----------------|--|
| 1 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | POWERLEADER |  | November 28, 2010 | 1481657 | Computer; computer peripherals; data processing equipment; computer software (recorded); computer peripheral equipment; central processing unit (information processor); notebook computers; IC card; optical communications equipment; internal communication device |
| 2 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | POWTEL |  | May 14, 2003 | 3083534 | Computing machine; accounting computing machine; computer memory; data processing equipment; computer; computer peripherals; barcode reader; compact discs (read-only memory); compact disc (readable memory) |
| 3 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | POWERLEADER |  | December 14, 2005 | 3833368 | Computer memory; computer; data processing equipment; portable computer; recorded computer operating programs; computer peripherals; computer software (recorded); central processing device (information processor); information processor (central processing unit); computer peripheral equipment |
| 4 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | POWERLEADER |  | March 28, 2006 | 3833369 | Advertising; business management assistance; import and export agent; auction; promotion (for others); intermediary for others (purchase goods or services for other companies); personnel management consultancy; relocation of business premises; computer database information systematization; audit |
| 5 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | PSTAR |  | February 21, 2010 | 6113613 | Number displays; electronic bulletin boards; TV; DVD player; movie camera; low pressure automatic monitor for vehicle tires; microscope |
| 6 | POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED | POWERLEADER |  | November 7, 2010 | 6558705 | Money counting and sorting machine; fax; flashing signal lights; audio-visual teaching equipment; remote control electrical equipment of industrial operations; electronic anti-theft device |

(2) Patented technology

There are 35 patented technologies declared by Powerleader Computing for the appraisal, including authorized patented technologies or patented technologies under review. Wherein, nine patented technologies were transferred by POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED to Powerleader Computing for use free of charge; two Patents for Invention are jointly owned by Powerleader Computing and East China University of Science and Technology. Specific details are as follows:

| No. | Patented name | Technology category | Applicant | Application No./ Patent No. | Current situation | Authorization date | Legal status |
|-----|---|----------------------|--|-----------------------------|---|--------------------|--------------|
| 1 | Server remote management system | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 201120353398.9 | Certificate obtained | 2012/5/30 | Entitled |
| 2 | Speed modulating cooling apparatus for single-way IU server | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 201120316487.6 | Certificate obtained | 2012/5/23 | Entitled |
| 3 | A monitoring system of hard disk working status | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 201120304587.7 | Certificate obtained | 2012/9/12 | Entitled |
| 4 | Valuables transport monitoring system and monitoring method based on RFID | Patent for Invention | East China University of Science and Technology + Shenzhen Powerleader Computing System Co., Ltd | 201210350809.8 | It has entered a substantive examination, pending certificate | | Under review |
| 5 | Healthy examination information management system based on RFID and cloud computing | Patent for Invention | East China University of Science and Technology + Shenzhen Powerleader Computing System Co., Ltd | 201210351204.0 | Substantive examination | | Under review |
| 6 | A chip voltage power sequence control circuit | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | ZL200820213339.X | Certificate obtained | 2009/8/26 | Entitled |
| 7 | A noise reduction device and server computer case with noise reduction device | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | ZL200820213553.5 | Certificate obtained | 2009/8/5 | Entitled |
| 8 | A modular server | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | ZL200820213914.6 | Certificate obtained | 2009/9/2 | Entitled |
| 9 | A speed modulating cooling server | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 200920135874.2 | Certificate obtained | 2010/1/27 | Entitled |

| No. | Patented name | Technology category | Applicant | Application No./ Patent No. | Current situation | Authorization date | Legal status |
|-----|---|---------------------|--|-----------------------------|----------------------|--------------------|--------------|
| 10 | A computer motherboard interface conversion device | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 200920135991.9 | Certificate obtained | 2010/1/27 | Entitled |
| 11 | A gateway device with bypass switch | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 200920130369.9 | Certificate obtained | 2010/1/27 | Entitled |
| 12 | High-density server device | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 200920130593.8 | Certificate obtained | 2010/1/27 | Entitled |
| 13 | Adapter device of computer case built-in hard disk with PCI interface | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 201120316488.0 | Certificate obtained | 2012/5/25 | Entitled |
| 14 | A power supply simulation test device | Utility Model | Shenzhen Powerleader Computing System Co., Ltd | 201120341728.2 | Certificate obtained | 2012/5/25 | Entitled |
| 15 | Computer Case (1240T) | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | ZL200830252328.8 | Certificate obtained | 2009/9/30 | Entitled |
| 16 | Computer Case (1360) | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 200830252327.3 | Certificate obtained | 2010/6/9 | Entitled |
| 17 | PL-01 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222202.8 | Certificate obtained | 2012/1/11 | Entitled |
| 18 | Hard drive tray (PL) | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222192.8 | Certificate obtained | 2012/1/11 | Entitled |
| 19 | PL-02 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222201.3 | Certificate obtained | 2012/1/11 | Entitled |
| 20 | PL-03 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222200.9 | Certificate obtained | 2012/1/11 | Entitled |
| 21 | PL-04 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222199.X | Certificate obtained | 2012/1/11 | Entitled |
| 22 | PL-05 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222198.5 | Certificate obtained | 2012/1/11 | Entitled |
| 23 | PL-06 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222197.0 | Certificate obtained | 2012/1/11 | Entitled |

| No. | Patented name | Technology category | Applicant | Application No./ Patent No. | Current situation | Authorization date | Legal status |
|-----|--|----------------------|---|-----------------------------|----------------------|--------------------|--------------|
| 24 | PL-07 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222196.6 | Certificate obtained | 2012/1/11 | Entitled |
| 25 | PL-08 Computer Case | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222195.1 | Certificate obtained | 2012/1/11 | Entitled |
| 26 | PL-Powerleader 2U panel | Appearance Design | Shenzhen Powerleader Computing System Co., Ltd | 201130222194.7 | Certificate obtained | 2012/1/11 | Entitled |
| 27 | A Computer Case | Utility Model | Shenzhen Powerleader Science & Technology Group Limited | CN201120119524.4 | Certificate obtained | 2011/10/5 | Entitled |
| 28 | A Internet card test method and system | Patent for Invention | Shenzhen Powerleader Science & Technology Group Limited | CN201110092637.4 | Certificate obtained | 2014/4/2 | Entitled |
| 29 | Computer Case (2081) | Appearance Design | Shenzhen Powerleader Science & Technology Group Limited | CN201130070688.8 | Certificate obtained | 2011/9/21 | Entitled |
| 30 | Computer Case (2085) | Appearance Design | Shenzhen Powerleader Science & Technology Group Limited | CN201130070686.9 | Certificate obtained | 2011/9/21 | Entitled |
| 31 | Computer Case (2086) | Appearance Design | Shenzhen Powerleader Science & Technology Group Limited | CN201130070680.1 | Certificate obtained | 2011/9/21 | Entitled |
| 32 | Computer Case (2704T) | Appearance Design | Shenzhen Powerleader Science & Technology Group Limited | CN201130070620.X | Certificate obtained | 2011/9/21 | Entitled |
| 33 | A server cabinet structure | Utility Model | Shenzhen Powerleader Science & Technology Group Limited | CN200820213484.8 | Certificate obtained | 2009/8/26 | Entitled |
| 34 | Server Computer Case | Utility Model | Shenzhen Powerleader Science & Technology Group Limited | ZL200820213485.2 | Certificate obtained | 2009/8/26 | Entitled |
| 35 | A shock absorbing device | Utility Model | Shenzhen Powerleader Science & Technology Group Limited | CN201120148173.X | Certificate obtained | 2011/12/14 | Entitled |

(3) Software Copyright

Powerleader Computing has obtained 17 Software Copyrights currently. Wherein, eight Software Copyrights were transferred by POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED to Powerleader Computing for use free of charge. Specific details are as follows:

| No. | Patented name | Technology category | Applicant | Application No./ Patent No. | Current situation | Authorization date | Legal status |
|-----|--|---------------------|--|-----------------------------|----------------------|--------------------|--------------|
| 1 | Powerleader server management software PSMS | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2008SR27366 | Certificate obtained | 2008/10/30 | Entitled |
| 2 | Powerleader Powermail system software | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2008SR27363 | Certificate obtained | 2008/10/30 | Entitled |
| 3 | Powerleader PowerVOD system software | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2008SR27361 | Certificate obtained | 2008/10/30 | Entitled |
| 4 | Powerleader Power Balance load balance software | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2008SR27364 | Certificate obtained | 2008/10/30 | Entitled |
| 5 | PLHA double machine fault-tolerant software | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2008SR27362 | Certificate obtained | 2008/10/30 | Entitled |
| 6 | Powerleader Power Scan anti-spam system | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2008SR27365 | Certificate obtained | 2008/10/30 | Entitled |
| 7 | Online audio converter software V1.0 of Shenzhen Powerleader Computing System Co., Ltd | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2011SR058202 | Certificate obtained | 2011/8/17 | Entitled |
| 8 | Audio and video conversion master software V1.0 | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2011SR057976 | Certificate obtained | 2011/8/17 | Entitled |
| 9 | Data Processing Software V2.0 | Software Copyright | Shenzhen Powerleader Computing System Co., Ltd | 2011SR053231 | Certificate obtained | 2011/7/29 | Entitled |
| 10 | Cloud server online monitoring platform system software V1.0 | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited + Shenzhen Powerleader Computing System Co., Ltd | 2014SR138197 | Certificate obtained | 2014/9/26 | Entitled |

| No. | Patented name | Technology category | Applicant | Application No./ Patent No. | Current situation | Authorization date | Legal status |
|-----|---|---------------------|---|-----------------------------|----------------------|--------------------|--------------|
| 11 | Cloud Server Network Configuration Management System Software V1.0 | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited + Shenzhen Powerleader Computing System Co., Ltd | 2014SR140003 | Certificate obtained | 2014/10/18 | Entitled |
| 12 | Powercloud high-performance computing platform redundancy storage software | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited | 2012SR112432 | Certificate obtained | 2012/11/22 | Entitled |
| 13 | Powercloud high-performance computing platform support software | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited | 2012SR112240 | Certificate obtained | 2012/11/22 | Entitled |
| 14 | Powercloud high-performance server lifecycle management software | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited | 2012SR112233 | Certificate obtained | 2012/11/22 | Entitled |
| 15 | Powercloud high-performance computing platform communication agent software | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited | 2012SR112224 | Certificate obtained | 2012/11/22 | Entitled |
| 16 | Powerleader Gstone 9016i iSCSI disk array software | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited | 2009SROR6409 | Certificate obtained | 2009/2/19 | Entitled |
| 17 | Cloud server load balance system software V1.0 | Software Copyright | Shenzhen Powerleader Science & Technology Group Limited + Shenzhen Powerleader Software Development Co., Ltd. | 2014SR137895 | Certificate obtained | 2014.9.15 | Entitled |

The above Patents for Invention, Utility Model Patents, Appearance Design Patents, Software Copyright and trademark rights owned by the enterprise whereby the patent certificates have been obtained and not have been obtained together serve for the enterprise technology industrialization and bring revenues to the enterprise.

The above commissioned valuation subject and scope of valuation are consistent with the valuation subject and scope of valuation involved in the economic activities.

(IV) Type and quantity of off-balance sheet assets declared by the enterprise

As at the Valuation Base Date (31 July 2015), Powerleader Computing had no other off-balance sheet assets except for the declared intangible assets unrecorded on the book value.

(V) The type, quantity and carrying amount (or assessed value) of assets cited in the conclusions of the report issued by other agencies

The carrying values of assets and liabilities as at the Valuation Base Date and previous two years in the Appraisal Report are audit results in the Audit Report (report No.: “Zhong Huan Zhuan Zi (2015) 021894”) with unqualified opinions issued by Union Power CPAs Co., Ltd (Special General Partnership); in addition, this report does not cite the contents of reports issued by other agencies.

IV. Types of value and definitions

According to the valuation purpose, the type of value is determined as the market value. Market value means the estimated value of the normal and equitable transaction conducted by the valuation target as at the Valuation Base Date under the circumstance that the willing buyers and sellers act reasonably and are without compulsion.

As the defined value type of the valuation conclusion in accepting the principal’s engagement, market value is selected as the value type of the valuation on the principle of consistency between value type and valuation purpose, by taking market conditions and the conditions of the valuation subject into full consideration.

V. Valuation Base Date

The Valuation Base Date of the economic behavior is 31 July 2015.

Reasons to determine this date as the Valuation Base Date: (i) meet the needs of the relevant economic behavior and conducive to the realization of valuation purpose; (ii) the Valuation Base Date is the balance sheet day of the end of the accounting month, and also the audit base date of the audit report to facilitate the appraisal agency to make full use of the existing financial information of the Valued Entity, and conducive to complete the appraisal.

VI. Valuation Basis

The laws and regulations of national, local governments and relevant departments as well as reference documents in the valuation mainly include:

(I) Behavior basis of valuation

1. “Notice Given by CETC to Group Corporation on 2015 Equity Investment and Equity Financing Plan Adjustment Program” (Dian Ke Zi No. [2015] 411);
2. “Resolution of 42th Meeting of the Fourth Board of Directors of Taiji Computer Corporation Limited” (22 December 2015).

(II) Basis of laws and regulations

1. “The Company Law of the People’s Republic of China” (amendment was passed at the 6th Meeting of the 12th National People’s Congress Standing Committee on 28 December 2013, and came into force on 1 March 2014);
2. “Securities Law of the People’s Republic of China” (the third amendment to the Decision of Five Laws such as the Revision of the Insurance Law of the People’s Republic of China by the National People’s Congress Standing Committee at the 10th Meeting of the 12th National People’s Congress Standing Committee on 31 August 2014);
3. “Real Right Law of the People’s Republic of China” (adopted at the Fifth Session of the Tenth National People’s Congress on 16 March 2007 and implemented on 1 October 2007);
4. “Enterprise Income Tax Law of the People’s Republic of China” (passed at the 5th meeting of the 10th Session of the National People’s Congress on 16 March 2007);
5. “Law of the People’s Republic of China on the State-Owned Assets of Enterprises” (passed at the 5th meeting of the 11th Session of Standing Committee of the National People’s Congress on 28 October 2008);
6. “Administrative Measures for the Appraisal of State-owned Assets” (Order No. 91 of the State Council, 1991);
7. “Interim Regulations on the Supervision and Administration of State-Owned Assets of Enterprises” (Order No. 378 of the State Council, 2003);
8. “Measures on Management of Major Asset Restructuring of Listed Companies” (Order No. 109 of China Securities Regulatory Commission, 23 October 2014);
9. “Notice on the Publishing of Implementation Rules on Non-Public Offering of Shares by Listed Companies” (China Securities Regulatory Commission on 14 September 2015);
10. “Interim Measures for the Management of Transfer of the State-owned Properties of Enterprises” (Order No. 3 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance);
11. “Interim Administrative Measures for the Appraisal of State-owned Assets of Enterprises” (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council, 25 August 2005);
12. “Notice of Strengthening the Administration of the Appraisal of State-owned Assets of Enterprises” (Guo Zi Wei Chan Quan [2006] No. 274);

13. “Detailed Rules for Implementation of Interim Regulations on Value-Added Tax of the People’s Republic of China” (Order No. 50 of the Ministry of Finance and the State Administration of Taxation);
14. “Notice on Matters Related To the State-Owned Assets Appraisal Report Audit of Enterprises” (Guo Zi Chan Quan [2009] No. 941);
15. Notice on Printing and Issuing of the Guide on Filing for Valuation Projects of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
16. “Enterprise Accounting Standards” (2014) and other relevant accounting system;
17. “Patent Law of the People’s Republic of China” (adopted at the sixth meeting of the Standing Committee of the Eleventh Session of Standing Committee of the National People’s Congress on 27 December 2008);
18. Other relevant laws, regulations and notice documents.

(III) Basis of valuation standards

1. “Asset Valuation Standards — Basic Standards” (Cai Qi [2004] No. 20);
2. “Professional Ethics Standards for Asset Valuation — Basic Standards” (Cai Qi [2004] No. 20);
3. “Asset Valuation Standards -Appraisal Report” (Zhong Ping Xie [2007] No. 189);
4. “Asset Valuation Standards — Valuation Procedures” (Zhong Ping Xie [2007] No. 189);
5. “Asset Valuation Standards — Machinery and Equipment” (Zhong Ping Xie [2007] No. 189);
6. “Guiding Opinions on Types of Value under Asset Valuation” (Zhong Ping Xie [2007] No. 189);
7. “Asset Valuation Standards — Enterprise Value” (Zhong Ping Xie [2011] No. 227);
8. “Asset Valuation Standards — Intangible Assets” (Zhong Ping Xie [2008] No. 217);
9. “Guiding Opinions on Patent Asset Appraisal” (Zhong Ping Xie [2008] No. 217);
10. “Guiding Opinions on Trademark Asset Appraisal” (Zhong Ping Xie [2011] No. 228);
11. “Guidelines on Appraisal Report of State-Owned Assets of Enterprises” (Zhong Ping Xie [2008] No. 218);
12. “Guidelines on Service Quality Control of Appraisal Agencies” (Zhong Ping Xie [2010] No. 214);

13. “Code of Professional Ethics of Assets Appraisal — Independence” (Zhong Ping Xie [2012] No. 248);
14. Guidance Opinion on the Concern of Certified Public Valuers over the Legal Title of Valuation Subject (Kuai Xie [2003] No. 18);
15. “Notice of Zhong Ping Xie on Amending the Signature and Seal Provisions in the Guidelines Relating to the Appraisal Report” (Zhong Ping Xie [2011] No. 230).

(IV) Basis of ownership

1. Business License;
2. Proof documents of capital contribution (Articles of Association, capital verification reports, etc.);
3. “Motor Vehicle Driving Permit”;
4. “Patent Certificate”;
5. “Trademark Registration Certificate”;
6. Important asset purchase contracts or vouchers;
7. Business License and Articles of Association of the investee;
8. Other contracts, accounting vouchers, accounting statements and other documents in relation to obtaining and using of the corporate assets.

(V) Basis of pricing

1. Notice of the Ministry of Finance on Printing and Issuing of “Management Provisions on Basic Construction Finance” (Cai Jian [2002] No. 394);
2. The national macroeconomic, industrial, regional market and enterprise statistical analysis data;
3. Financial statements and financial breakdown as at the Valuation Base Date and previous three years;
4. Financial management, product production, raw material procurement, marketing and other business information provided by Powerleader Computing;
5. Revenues, costs, cost analysis and forecasts data of Powerleader Computing;
6. Fixed assets depreciation method of Powerleader Computing;
7. Development plan, investment projects and required funds for future years of Powerleader Computing;

8. Financial accounting system of Powerleader Computing;
9. Wages and welfare policy and total wage changes for future years of Powerleader Computing;
10. Part of the contracts and agreements provided by Powerleader Computing;
11. Investment income historical and forecast data provided by Powerleader Computing;
12. Assets detail list as at the base date provided by Powerleader Computing and the investees;
13. Powerleader Computing's industry position and market competition analysis data;
14. The current state and local tax policies and regulations;
15. Government bond yields and relevant index of similar listed companies around the base date;
16. Information about the A-share listed companies provided by iFinD software.

(VI) Other bases

1. Two-year financial statements (report No.: “Zhong Huan Zhuan Zi (2015) No. 021894”) of Powerleader Computing as at the Valuation Base Date and previous two years issued by Union Power CPAs Co., Ltd (Special General Partnership);
2. Assets list and valuation declaration form provided by Powerleader Computing and its subsidiaries;
3. Purchasing, sales and other business contracts provided by enterprise;
4. “Asset Valuation and Common Data and Parameter Manual”;
5. Market survey conducted by the evaluators;
6. Relevant information on site investigation and inquiry conducted by the evaluators;
7. Related documents provided by related departments and personnel of enterprise;
8. Statistical information and technology standards promulgated by the relevant departments, relevant macroeconomic, industry analysis and market data and other relevant information collected by the appraisal agencies.

VII. Valuation Methods

(I) Selection of Valuation Methods

According to the valuation purpose of the project, the scope of valuation is involved in all the assets and related liabilities of the enterprise. According to the “Valuation Standards — Basic Standards” and “Asset Valuation Standards — Enterprise Value” and other relevant provisions of the valuation standards, the main valuation methods include the market approach, income approach and asset-based approach (cost approach).

The income approach refers to the valuation method used for determining the value of the valuation subject by capitalizing or discounting the expected income. The income capitalization or discounted approach and method are applied to determine and estimate the value of the valuation subject. The valuation was based on the assumption of on-going business operation of the valuation subject; the enterprise offered the audited two-year complete historical business financial information and the management of the enterprise analyzed and forecasted the company’s future operation, meeting the basic conditions of using income approach to assess.

The asset-based approach refers to the valuation method, based on the balance sheets of the valuation subject as at the valuation base date, used for determining the value of the valuation subject by reasonably appraising the value of various assets and liabilities recorded in and outside balance sheets. The commissioned enterprise of the project is engaged in the computer manufacturing industry and is a high-tech enterprise; asset-based approach cannot fully reflect the market value of the commissioned enterprise, so it is not suitable to use the asset-based approach.

The two specific methods under market approach that are usually used are listed company comparison as well as transactions comparison.

Listed company comparison refers to the specific valuation in which the value of a valuation target is recognized by conducting comparison analysis on the entity valued after acquiring and analyzing the operational and financial data of the comparable listed companies and calculating the appropriate value ratio. Transactions comparison refers to the specific valuation in which the value of valuation target is recognized by conducting comparison analysis on the entity valued after acquiring and analyzing the information of the comparable entities including their transactions, merger and acquisition undertaken and calculating the appropriate value ratio. The appraised enterprise Powerleader Computing is a wholly owned subsidiary of POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED (08236.HK, POWERLEADER SCIENCE & TECHNOLOGY GROUP) listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. At present, China has a number of listed companies engaged in the computer manufacturing industry, and many of them are leading well-known enterprises in the server field; therefore, there is information on publicly listed companies to support the market approach valuation of Powerleader Computing; therefore, listed company comparison approach should be used to assess the valued enterprise.

In conclusion, market approach and income approach are used in this valuation.

(II) Method of determining valuation conclusion

On the basis of obtaining valuation results from the two valuation methods and comprehensive analysis of the integrity and reliability of data used in the specific application process of the two valuation methods, and reasonable valuation results, the valuation results of one of the valuation methods are determined as the final valuation conclusion of the report.

VIII. Specific Valuation Method Application of Income Approach

The income approach is a term referring to the various methods used in valuing the valuation subject by assessing the present value of the enterprise's expected future income flow. The approach follows the principle of getting the capital from the income, which adopts the income capitalization and discounting measures and their methods in determining and assessing the value of the valuation subject. The specific basic technical idea of the income approach applied for the valuation is described as follows.

Income approach requires that the connotation of enterprise value and the type of income and the discount rate basis should be consistent.

(I) About income source — enterprise's free cash flow

The enterprise's free cash flow is applied for the type of income. The enterprise's free cash flow is the cash flow of all investors including the shareholders and the creditors of the interest-bearing liability. The calculation formula is as follows:

Enterprise's free cash flow = net profit after tax + depreciation and amortization + interest expenses (after deducting the tax implications) – capital expenditure – net working capital changes

(II) About discount rate

The weighted average capital cost (WACC) is determined as the discount rate of enterprise's free cash flow. There are several ways of sources of funding for enterprise, such as shareholders' investments, bonds, bank loans, lease financing and retained earnings, etc. Creditors and shareholders invest funds into a particular enterprise, and expect the opportunity cost of their investments can be compensated. Weighted average capital cost refers to the proportion of the capital raised by a certain financing method in the total capital and the cost of capital obtained by weighted average of individual cost of capital obtained by a variety of financing methods. WACC is calculated as follows:

$$WACC = \left(\frac{1}{1 + D/E} \right) \times Re + \left(\frac{1}{1 + E/D} \right) \times (1 - T) \times Rd$$

Wherein: E: capital value of shareholders' equity;
D: debt capital value;
Re: capital cost of shareholders' equity;
Rd: debt capital cost;
T: corporate income tax rate applicable to the company.

(III) About income period

Infinity is adopted as return period for this valuation according to the long-term business objective of the enterprise. Wherein, the first phase of which starts from 1 August 2015 and will be ended at 31 December 2020. The forecast period is every five years. During such period, based on the company's historical performance and future market analysis, the return will gradually stabilize. The second phase starts from 1 January 2021 to ever continuing operation, since then the enterprise commences its sustainable operation. During such period, the return of the enterprise will maintain stable.

(IV) Income approach formula

The income approach formula is as follows:

$$P = \sum_{i=1}^n \frac{A_i}{(1+R)^i} + \frac{A}{R(1+R)^n} - B + OE$$

| | | | |
|----------|----------------|---|---|
| Wherein: | P | — | assessed value of shareholders' entire equity of the enterprise; |
| | A _i | — | enterprise's free cash flow in the i year of earnings change period recently; |
| | A | — | sustained and stable enterprise's free cash flow in the corporate earnings stable period; |
| | R | — | discount rate; |
| | n | — | forecasted years of enterprise's earnings changes period; |
| | B | — | present value of interest-bearing debts of the enterprise as at the Valuation Base Date; |
| | OE | — | present value of overflow and non-operating assets and liabilities of the enterprise as at the Valuation Base Date. |

IX. Specific Valuation Method Application of Market Approach

First, select domestic comparable listed computer manufacturing companies as the reference enterprises; analyze the stock market price, net assets per share, earnings per share, sales per share, YoY growth of net profit attributable to shareholders of the parent company, stock index and other data at the end of the period regularly (annual, interim, quarter) reported by reference enterprises since 2010, in order to establish a multiple linear regression equation of the stock market price and each parameter selected and calculate the equation coefficient. Then, the multiple linear regression equation is evaluated. According to the features of the non-listed computer company Powerleader Computing, recombine the independent variable and research the influencing factors of share price of unit net assets. Finally, obtain the linear regression pricing equation of optimized multiple composite independent variable.

The valuation results obtained directly from the listed company comparison approach reflect the equity value of the listed companies normally trading on the open market. While, the active stock trading market does not exist for the equity of the non-listed company Powerleader Computing. Valuation conclusion should consider the impact of liquidity on the valuation subject value.

We selected the pricing cases of major asset restructuring through non-public offering of shares to purchase assets by several listed companies or pricing cases of non-listed comparable companies involved in the acquisition of assets by comparable listed companies since 2014, and put the parameters of non-listed comparable companies into the linear regression pricing equation of the optimized multiple composite independent variables to assess the value of tradable shares of such companies as if they are listed companies, and then make comparison with the equity value actually determined for participation in the

restructuring of listed companies to calculate the illiquidity discount rate of equity, thereby calculating and judging the illiquidity discount rate of the equity of Powerleader Computing:

Market value of Powerleader Computing's equity = market value of equity obtained from the pricing formula of optimized multiple composite independent variable \times (1 - illiquidity discount rate of Powerleader Computing's equity)

X. Implementation Process and Conditions for the Valuation Procedures

The implementation process for the valuation procedures are as follows:

(I) Identifying basic issues of the appraisal

Our business leaders discussed with the representative of the Principal to identify the Principal, the Valued Entity and other valuation report users other than the principal; valuation purpose; valuation subject and scope of valuation; value type; Valuation Base Date; restrictions on the usage of the appraisal report; time and manner to submit the appraisal report; total valuation service fees, time and manner of payment; and other important issues needed to be clear by the Principal and Certified Public Valuer working together and providing support.

(II) The signing of the engagement letter

Based on the specific valuation business, we conducted comprehensive analysis and evaluation of our professional competence, independence and business risk, and the appraisal agency decided to undertake the appraisal business.

(III) Preparation of valuation plan

After undertaking the appraisal business, we organized the Certified Public Valuers to prepare the valuation plan, which included the specific steps, schedules, staff arrangement and technical plan, etc.

(IV) On-site inspection

Based on truthful assets declaration and overall assets inspection to be appraised, we have inspected the assets that are within the scope of this valuation. Assets of inspection included current assets and fixed assets. Contents of inspection included assets ownership verification, quantity, usage condition, and other major factors affecting the valuation pricing. The detailed procedures were as follows:

1. Instructed the financial personnel and other relevant personnel to report assets valuation schedules and other relevant information based on assets inspection as required by the appraised organization.
2. Required the Principal or the Value Entity to sign, seal or otherwise confirm the valuation schedules and relevant proof documents provided by them.

3. The Certified Public Valuers conducted enquiry, confirmation letter, checking, supervised stocktaking, investigation and inspection, etc. to obtain fundamental information required for the appraisal task, understood current status of the valuation subject and paid attention to the legal titles of the valuation subject;
4. Since not all assets and liabilities within the scope of valuation can or should be inspected one by one, we conducted investigations by sampling and other means in accordance with the importance degree.

(V) Collection of appraisal information

We collect valuation information based on the specific situation of valuation business, and replenish and collect valuation information in a timely manner according to valuation business needs and circumstances change during valuation business implementation. Such information includes:

1. information independently and directly obtained from the market and other channels, information obtained from the Principal, the Valued Entity and other related parties, as well as information obtained from government departments, professional institutions and other relevant departments;
2. query records, inquiry results, inspection records, industry information, analysis data, appraisal reports, professional reports and government documents;
3. information formed through analyzing, collecting and summarizing valuation data by the Certified Public Valuers according to the specific circumstances of the valuation business.

(VI) Checking data with audit institution

The valuers and auditors entered the field at the same time. On the basis of their work, the valuers checked the data with the auditors.

(VII) Appraisal estimates

1. The main work of income approach valuation: to collect, filter, analyze, and estimate relevant data of same industry and listed companies, and compare these data with the related data of the valuated entity and analyze; on the basis of in-depth study of all aspects of the production and operation of the enterprise, establish the calculation model to conduct valuation estimates, and repeatedly correct to preliminary determine the valuation results of income approach;
2. The main work of market approach valuation: listed company comparison approach combined with the transactions comparison approach. The listed company comparison approach is used to obtain various comparative parameters and determine the optimized multipartite composite independent variable pricing equation; estimate and judge the illiquidity discount rate of Powerleader Computing's equity through the

pricing cases of non-listed comparable companies involved in reorganization of several listed companies in recent years. And repeatedly correct to preliminary determine the valuation results of market approach;

3. Preliminary valuation results of market approach and income approach were compared, analyzed, supplemented, modified, and improved; on the basis of comprehensive analysis of influencing factors of value, ultimately determine reasonable selection of the valuation results of income approach as the final valuation conclusion of this appraisal.

(VIII) Preparation and submission of the Appraisal Report

Based on the above work, we completed the initial draft of the Asset Appraisal Report. After preliminary review of the initial draft of the Appraisal Report and the working paper, we carried out necessary communication with the Principal about the contents of the Appraisal Report. After full consideration of the relevant opinions, we made the necessary adjustments, modification and improvement on the valuation conclusion, and then carefully reviewed the report according to the internal assets appraisal report review systems and procedures; afterwards, ZHONGSHUI ZHIYUAN ASSETS APPRAISAL CO., LTD officially issued the Appraisal Report and submitted it to the Principal.

XI. Appraisal Assumption

In this valuation, the valuers adopted the following appraisal assumptions:

(I) General assumption

1. Transaction assumption: The transaction assumption assumes all assets to be valued are in the course of transaction and the valuation assessed by the appraiser is based on simulated market including terms of transaction of the target assets.
2. Assumption of open market: Assumption of open market is an assumption of the conditions for an asset to enter the market and impacts on the asset under such a market condition. An open market is fully and materially developed stage on which buyers and sellers are both free to choose and compete. In the open market, both parties of a transaction are equal, which means they are given the opportunity and time to acquire enough market information. Buyers and sellers are supposed to be voluntary and rational rather than being coerced or confined during the transaction.
3. Asset continuous use assumption: Asset continuous use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the status of the assets in such market conditions. It is first assumed that the Appraised Entities are in use, and it is further assumed that the assets that are in use will be used continuously. Under asset continuous use assumption, no consideration is given to the conversion of the use of the assets or the use of the assets under the best condition. Thus, the valuation results are subject to a restricted scope of applicability.

4. On-going basis assumption: It is assumed the enterprise will continue to operate in the coming years and will not cease to operate in the foreseeable future.
5. Tax incentives interruption assumption: At present, this enterprise belongs to a high-tech enterprise and is entitled to 15% of tax incentives. It is assumed that the enterprise is still entitled to 15% of tax incentives until 2020, and will be unable to enjoy any tax incentives after 2020 (inclusive); but in order to maintain the status of the industry, the enterprise still needs to pay research and development costs.
6. Management overall stability assumption: It is assumed that the company's existing core management staff are stable and dedicated full effort for the company's development, without resign, sabotage and other phenomena affecting the management of the enterprise.

(II) Special Assumption

1. Assuming that the external economic environment remains unchanged and the current national macroeconomic conditions will not change significantly as at the Valuation Base Date;
2. There will be no material changes in the socio-economy and the policies of taxation or tax rates of the enterprise;
3. The diligence of the management team of the enterprise in the future and the sustainability of the prevailing operating and managing model;
4. The valuation is based on the actual amount of stocks of all the assets as on the Valuation Base Date, and the current market prices of the relevant assets are based on the domestic effective prices on the Valuation Base Date;
5. The valuated entity is assumed to adopt the fundamentally same accounting policy in the future with the one adopted in writing this report after the Valuation Base Date;
6. The valuated entity is assumed to maintain the existing business scope and mode on the basis of the present management mode and level after the Valuation Base Date;
7. The basic information and financial data supplied by the principal and the valuated entity are assumed to be true, accurate and complete.

XII. Valuation Conclusion

We assessed the market value of entire equity of shareholders in Powerleader Computing based on the national regulations regarding assets valuation and on the principle of being independent, objective, and justified in accordance with the recognized assets valuation methods. Based on the above valuation, the following valuation conclusions are obtained:

(I) Valuation results of income approach

Under the premise of continuing operations as at the Valuation Base Date, the value of shareholders' entire equity assessed by the income approach was RMB1,681.7917 million, representing a valuation increase of RMB1,486.5818 million compared with the book value of RMB195.2099 million based on parent company, with a valuation appreciation rate of 761.53%; representing a valuation increase of RMB1,427.2537 million compared with the book value of RMB254.538 million on consolidated basis, with a valuation appreciation rate of 560.72%.

(II) Valuation results of market approach

Under the premise of continuing operations as at the Valuation Base Date, the value of shareholders' entire equity assessed by the market approach was RMB1,673.6973 million, representing a valuation increase of RMB1,478.4874 million compared with the book value of RMB195.2099 million based on parent company, with a valuation appreciation rate of 757.38%; representing a valuation increase of RMB1,419.1593 million compared with the book value of RMB254.538 million on consolidated basis, with a valuation appreciation rate of 557.54%.

(III) Analysis of valuation results of the two methods

As can be seen from the above results, the valuation results of market approach and income approach witnessed appreciation to a certain extent compared to the carrying value of net assets of the enterprise. By comparing the valuation results of the market approach and income approach, the valuation results of income approach is higher than that of the market approach by RMB8.0944 million or 0.48%. There are no big differences between the valuation results of the two methods.

The following are specific analysis on the reliability and rationality of the valuation results of the two valuation methods.

Samples of the market approach are sourced from the stock market. As China's stock market is currently affected by policy and capital factors, the stock market witnessed sharp fluctuations in recent years, and there are some differences in asset size and profitability between comparable companies and the Valued Entity; even if the valutors have amended the above matters, there still may be some deviation.

Income approach is based on the judgment of assets profitability by capitalization or discounting of the expected income of the assessed enterprise to assess the value of the valuation subject, reflecting the ideas of earnings forecast. For the purpose of this

evaluation, the parties of the transaction value the assessed company's future operations and profitability, and the qualitative and quantitative data used in the income approach is superior to the market approach. In the meantime, the assessed company's history annual operating income data are available for reference and its income and risks in the coming year can be estimated reliably; comparatively speaking, the valuation conclusion of income approach is more reliable and convincing.

In summary, we believe that the valuation conclusion of the income approach is more reasonable and reliable, and more objectively reflects the market value of the valuation subject. Therefore, this report adopts the valuation results of the income approach as the final valuation conclusion.

(IV) Valuation Conclusion

Upon valuation, under the assumptions in this report, as at the Valuation Base Date (31 July 2015), the value of shareholders' entire equity of the appraised Shenzhen Powerleader Computing System Co., Ltd was RMB1,681.7917 million, in words: RMB One Thousand Six Hundred and Eighty One Million Point Seven Nine One Seven.

XIII. Special Events

Set out below are related events which have been identified to have potential effect on valuation conclusions during the valuation, and which cannot be evaluated or estimated by the valuers with their expertise and ability, including but not limited to:

- (I) The valuation results reflect the current price of valuation subject within the valuation purpose determined in accordance with the principles of the open market. The valuation has taken no account of the impact on appraisal value from mortgage and guarantee likely to be undertaken in the future and additional amount likely to be paid by special counterparty, and the impact on assets' price from the influence of changes to the State's macroeconomic policies and occurrence of natural disasters and other force majeure. In the event that there is a change in the aforementioned conditions and the continuing operation principle adopted in the course of the assessment, the conclusion of the assessment will generally become invalid.
- (II) For any flaws of the company that could possibly affect the asset valuation, in case that no specific indications were given upon the engagement by the appointing company whereas the valuers still could not know the relevant information despite of having fulfilled the valuation procedure, the valuation institution and the valuers shall assume no liabilities.
- (III) The preparation of this report is based on behavior documents, business license, proof documents of ownership, financial statements, accounting documents provided by Taiji Computer Corporation Limited and Shenzhen Powerleader Computing System Co., Ltd in connection with the valuation.

The Principal and related parties provided all legal ownership materials of the evaluation objects and shall be responsible for the authenticity, legality, and integrity of these materials. The purpose of Certified Public Valuer's implementing assets valuation transaction is to estimate the values of objects being evaluated and provide professional opinions, and make the necessary independent verification. The Principal and the Valued Entity shall be responsible for the authenticity, legality, and integrity of the provided materials.

- (IV) The appraisal agency does not assume any responsibility for unpredictable market situation changes, nor bear obligation to correct the Appraisal Report with regard to events or circumstances incurred after the Valuation Base Date.
- (V) The valuers made the necessary verification of property rights within the scope of the valuation and made full disclosure of property rights issues found, but the Appraisal Report is published professional valuation opinions on the valuation subject, not have legal proof of ownership of property, therefore, this report cannot serve as proof documents of ownership.
- (VI) Basis for preparation of simulation financial statements:

According to the information disclosed in the notes to the special audit report of this project, financial information contained in the specially audited financial statements is based on the actual accounting statements and related accounting books of Powerleader Computing, POWERLEADER SCIENCE & TECHNOLOGY, and Powerleader Software during each reporting period according to the relevant stipulations of the agreement on purchase of server-related business and assets by Taiji from Powerleader Computing; it is assumed that the operating assets and liabilities and related to the server used for proposed subscription of shares independently exist and continuously operate on 1 January, 2013 and it is prepared after disposal as described below. Specific instructions of the peeling off the financial statements are as follows:

1. The balance sheets of POWERLEADER SCIENCE & TECHNOLOGY proposed to inject Powerleader Computing server business and assets as at 31 December 2013, 31 December 2014, and the Valuation Base Date, on the basis of the original balance sheet of POWERLEADER SCIENCE & TECHNOLOGY, according to the principle of "assets and liabilities following the business", current accounts, financial instruments, and income cost are divided by the nature of the business, inventories are divided by business segment, Investment property and fixed assets are divided by business department, accrued wages payable are divided by the business-related personnel, which will be removed from the assets and liabilities unrelated to the server business. Assets and liabilities of Powerleader Computing and Powerleader Software as the proposed assets to be purchased will not be removed.
2. The income statements of POWERLEADER SCIENCE & TECHNOLOGY proposed to inject Powerleader Computing server business and assets in 2013, 2014, and January–July 2015, on the basis of the original income statement of POWERLEADER SCIENCE & TECHNOLOGY, revenue, costs, and expenses unrelated to the server

business will be peeled; revenue, costs, and expenses related to the server business will be considered as the gains and losses of the target. Powerleader Computing and Powerleader Software are all the target business and not removed.

Considering the special purpose of the simulation consolidated financial statements, when preparing the simulation consolidated financial statements, only the simulation consolidated balance sheet, simulation consolidated income statements and notes to the simulation consolidated financial statements of the server business and the related target assets during the reporting period are prepared. In the owners' equity of the simulation consolidated balance sheet and balance sheet of the parent company, "equity attributable to owners of the parent company" only lists the total amount, and does not distinguish the various detailed items of owner's equity.

- (VII) The valuation does not consider the impact of assets liquidity on the valuation conclusion.
- (VIII) The valuation conclusion is issued by Zhongshui Zhiyuan Assets Appraisal Co., Ltd. and subject to the influence of the practicing standards and capacity of the valuers of the appraisal agency.

Users of the Appraisal Report should note the impact of the above special events on the valuation conclusion.

XIV. Major Events after the Valuation Base Date

- On 12 August 2015, Powerleader Computing changed its type of enterprise from a limited liability company (sole proprietorship of legal person) to a limited liability company;
- Shenzhen Powerleader Science & Technology Group Limited transferred 10% of shares held in Powerleader Computing to Shenzhen Powerleader Cloud Computing Research Institute Limited and completed business registration. After the completion of the transfer, the ownership structure of Powerleader Computing is changed to:

| No. | Name of shareholder | Amount of contribution (RMB in millions) | Ratio of contribution |
|--------------|---|---|-----------------------|
| 1 | Shenzhen Powerleader Science & Technology Group Limited | 3,420.00 | 90.00% |
| 2 | Shenzhen Powerleader Cloud Computing Research Institute Limited | 380.00 | 10.00% |
| Total | | <u>3,800.00</u> | <u>100.00%</u> |

3. After the Valuation Base Date, Powerleader Computing received government subsidy income of RMB20.76 million, as shown below:

| Entity | Topics declared | Amount (RMB'000) | Expected to start using | Estimated total months |
|--------------------------|---|---------------------|----------------------------|---------------------------|
| Powerleader | Powerleader cloud server technological transformation project for Internet applications | 1,000.00 | 2015/9/8 | 60.00 |
| Powerleader | R&D of new server key technologies | 450.00 | 2015/9/1 | 60.00 |
| Powerleader Computing | Powerleader cloud storage server technology and production line reconstruction project based on Loongson CPU | 200.00 | 2015/12/23 | 60.00 |
| Powerleader | Powerleader IAAS cloud services platform industry application demonstration | 426.00 | 2015/12/22 | 60.00 |
| Total | | <u>2,076.00</u> | | <u>—</u> |

4. A Hong Kong subsidiary was established as follows:

Company Name: Powerleader Computer System (Hong Kong) Company Limited

Effective Date: 29 July 2015

Address: RM 20A
KIU FU COMM BLDG
300 LOCKHART RD
WAN CHAI
HONG KONG

Registered capital: (US\$)1 million

Nature of Business: CORP

Business scope: development, production, and marketing of computer software, hardware and peripherals, computer accessories, electronics, electrical appliances, communications product, computer systems integration; import and export business of goods and technologies.

Shareholders and
shareholding ratio: Powerleader Computing 100%

According to introduction by the enterprise, the main purpose of establishment of this company is to operate trade business of supermicro motherboard and other parts overseas as the first step for Powerleader Computing to go global. Currently, this company has generated revenue of more than RMB23 million and profit of RMB-100,000.

The scope of valuation does not include Powerleader Computer System (Hong Kong) Company Limited.

5. After the Valuation Base Date, the People's Bank of China lowered the RMB lending interest rate and deposit benchmark interest rate of financial institutions on 26 August 2015 and 24 October 2015, respectively. The valuation applied the latest one-year lending benchmark interest rate commencing from 24 October 2015 to determine the cost of interest-bearing debts Rd and other data.

In addition to the above matters, no significant matters which may affect the valuation work have been found.

XV. Restrictions on the Usage of This Report

- (I) The valuation conclusion is based on the on-going utilization under the circumstance of concerning about property ownership and appropriate disclosure of findings.
- (II) The valuation conclusion only serves for the valuation purpose specified by the valuation, and shall not be used for other economic activities besides the valuation purpose.
- (III) The valuation conclusion of this report shall remain valid for one year from the Valuation Base Date to 30 July 2016. If the purpose of this valuation is fulfilled within one year after the Valuation Base Date, the valuation conclusion can be used as a reference for the value of assets. If the purpose remains unfulfilled after the one year, a new valuation needs to be conducted.
- (IV) This valuation conclusion is the professional conclusion by the valuer based on the PRC laws and regulations. It shall be signed and sealed by the appraisal firm and the valuer. If approval or record is required in accordance with the relevant PRC laws and relevant provisions of the asset valuation, the report can be fairly used in accordance with the law after the asset appraisal report is approved or filed.
- (V) the valuation conclusion of this report is only used by the Principal for the valuation purpose and sending to the state-owned assets management department for review; the right to use the report is owned by the Principal; without the permission of the Principal, we shall not disclose to others.

XVI. Date of Putting Forward the Appraisal Report

The Appraisal Report was put forward on 25 January 2016.

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Legal representative of the valuation agency:

Certified Public Valuer:

Certified Public Valuer:

Certified Public Valuer:

ZHONGSHUI ZHIYUAN ASSETS APPRAISAL CO., LTD

25 January 2016

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (c) were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange were as follows:

(i) Interests in the Shares

| Name of Directors | Types of interests | Class of Shares | Number of Domestic Shares held by a controlled corporation | Approximate percentage of the Company's issued share capital | Approximate percentage of the Company's issued Domestic Shares |
|------------------------------------|------------------------------------|-----------------|--|--|--|
| Mr. Li Ruijie (<i>Note 1</i>) | Interest of controlled corporation | Domestic Shares | 102,184,500 | 42.05% | 56.07% |
| Ms. Zhang Yunxia (<i>Note 1</i>) | Interest of controlled corporation | Domestic Shares | 102,184,500 | 42.05% | 56.07% |
| Mr. Sun Wei (<i>Note 2</i>) | Interest of controlled corporation | Domestic Shares | 15,963,750 | 6.57% | 8.76% |
| Mr. Ma Zhumao (<i>Note 3</i>) | Interest of controlled corporation | Domestic Shares | 7,250,000 | 2.98% | 3.98% |

Note 1: Mr. Li Ruijie is the husband of Ms. Zhang Yunxia. They held 102,184,500 Domestic Shares in aggregate through Shenzhen Powerleader Investment Holdings Company Limited, which is held by Mr. Li Ruijie and Ms. Zhang Yunxia as to 87.5% and 12.5% respectively.

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

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

Save as disclosed above, as at the Latest Practicable Date, so far as known to the Directors, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO, or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (c) were otherwise required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO:

| Name of Director | Name of company | Position |
|-------------------------|---|--|
| Zhang Yunxia | Shenzhen Powerleader Investment Holdings Limited | Director |
| Li Ruijie | Shenzhen Powerleader Investment Holdings Limited | Director |
| Sun Wei | Harbin Century Longxiang Science & Technology Development Limited | Executive Director and General Manager |

3. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any members of the Group which did not expire or was not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the Group was not involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors or the controlling Shareholders or their respective close associates had any interests in any business which competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

6. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, the date to which the latest published audited financial statements of the Group were made up.

7. DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was, directly or indirectly, materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

8. EXPERTS AND CONSENTS

The following are the qualifications of experts who have given their opinions or advice which are contained in this circular:

| Name | Qualification |
|---|--|
| ShineWing Certified Public Accountants (Special General Partnership) | Certified Public Accountants |
| Zhongshuizhiyuan Assets Appraisal Co., Ltd. | PRC qualified asset appraisal institution |

Each of the ShineWing Certified Public Accountants (Special General Partnership) and Zhongshuizhiyuan Assets Appraisal Co., Ltd. above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or references to its name in the form and context in which they appear.

As at the Latest Practicable Date, each of ShineWing Certified Public Accountants (Special General Partnership) and Zhongshuizhiyuan Assets Appraisal Co., Ltd. did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of ShineWing Certified Public Accountants (Special General Partnership) and Zhongshuizhiyuan Assets Appraisal Co., Ltd. did not have any direct or indirect interests in any assets which had been acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Group within the two years immediately preceding the date of this circular, which are or may be material:

- (a) the Agreement as described in the section headed “the Agreement” in the Letter from the Board in this circular;
- (b) the Profit Guarantee Compensation Agreement as described in the section headed “Profit Guarantee Compensation Agreement” in the Letter from the Board in this circular;
- (c) the Asset Acquisition Agreement as described in the section headed “Transfer of Subject Assets before Completion by way of internal restructuring” in the Letter from the Board in this circular;
- (d) the non-competition undertaking executed by the Company and PC Research Institute to Taiji Computer dated 22 December 2015 as described in the section headed “Non-competition undertakings” in the Letter from the Board in this circular;
- (e) the capital increase agreement dated 11 August 2015 in relation to capital injection agreement entered into by Intel Semiconductor (Dalian) Ltd., the Company and Beijing Haiyun Jiexun, pursuant to which, Intel Semiconductor (Dalian) Ltd injected RMB24,830,000 to Beijing Haiyun Jiexun. After the capital injection, the Company’s shareholding in Beijing Haiyun Jiexun decreased from 25% to 21.55%; and
- (f) the partnership agreement dated 11 June 2014 in relation to the investment of RMB10 million in Shenzhen Qianhai Pengde Mobile Internet Venture Capital Fund (Limited Partnership).

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statement of the Group was made up.

11. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board comprised three independent non-executive Directors, namely, Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun. The audit committee of the Board is chaired by Mr. Chan Shiu Yuen Sammy. The background, directorship and past directorship (if any) of each of the members of the audit committee of the Board are set out below.

Mr. Chan Shiu Yuen Sammy, aged 51, an independent non-executive Director of the Company, has more than 21 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Chan was the qualified accountant, company secretary and authorized representative of the Company, the deputy general manager of China Fibretech Limited. He is currently a director of Brilliant Consultancy Limited and the chief financial officer of Newtree Group Holdings Limited. Mr. Chan has been appointed for the current term of office as an independent non-executive Director on 26 June 2013.

Dr. Guo Wanda, aged 50, an independent non-executive Director of the Company, graduated with a doctoral degree in economics from Nankai University in 1991. He was a former researcher of the Economics Research Institute, Nankai University. He also served as the director of the macro-economic center of the economic forecasting department of The Information Centre of Shenzhen Municipality. He previously served in Shenzhen Guangshun Co., Ltd.* (深圳廣順股份有限公司) as the head of the investment department, the secretary of the Board of Directors and an assistant general manager. He served for Guangshun Investment Hubei Shashi Company Limited* (廣順投資湖北沙市公司) as the chairman and general manager. He is currently acting as an independent director of Shenzhen MYS Environmental Protection & Technology Company Ltd*. (美盈森) (stock code: 002303), and HIT Shouchuang Technology Co., Ltd*. (工大首創) (stock code: 600857). He is the vice president of China Development Institute of Shenzhen, the chairman of Shenzhen Association of Management Consultants, and also a committee member of the advisory committee of Shenzhen municipal government. He has been appointed for the current term of office as an independent non-executive Director on 26 June 2013.

Mr. Jiang Baijun, aged 54, he graduated from the China Central Radio and TV University and majored in Chinese Literature. He was previously a secondary school teacher in Xian. He was engaged by the newspaper, Computerworld, as a special commentator on market development, and hosted a CEO interview program. He was the China market strategic consultant of AST, the market strategic consultant of Create Group, the market strategic consultant of the office automation department of Digital China (Toshiba China business), the market strategic consultant and strategic development consultant of HP China, and also the market strategic consultant of the product market in Compaq in China. Mr. Jiang was engaged as the market strategic consultant of the Hong Kong China Business of NEC (Notebook computer and monitor business), and was appointed the market strategic consultant of the monitor business of PHILIPS China, as well as the market strategic consultant of the peripheral product business of Legend Computer. Mr. Jiang was also the chief consultant in strategic development of Shenzhen Qinzhong Electronics, and the market strategic consultant of Huayu Bancoo. Mr. Jiang has been the market strategic consultant of the PC business of IBM China (notebook computer business), as well as the market strategic consultant of the Panasonic business and FUJITSU business of the China Daheng Group. Mr. Jiang has been appointed for the current term of office as an independent non-executive Director on 26 June 2013.

The primary duties of the audit committee are to review the Company's annual report and accounts, semi-annual report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee discussed and reviewed with the auditor and the management the financial statements of the Company before submission to the Board for approval.

12. MISCELLANEOUS

- (a) The registered office of the Company is at Room 43A, 43rd Floor, Block C, Electronics Science & Technology Building, Shennan Road Central, Futian District, Shenzhen, the PRC. The head office of the Company is at Powerleader Technology Park, 3 Guanyi Road, Guanlan High-Tech Park, Longhua New District, Shenzhen, the PRC.
- (b) The company secretary of the Company is Mr. Dong Weiping. He graduated from Jilin University in the PRC with a bachelor's degree in computer systems engineering.
- (c) The compliance officer of the Company is Mr. Li Ruijie. He graduated from the Nankai University with a double bachelor's degree in economics and electronics in 1989, and obtained an EMBA degree from Cheung Kong Graduate School of Business in 2012.
- (d) The Company's Hong Kong H share transfer office is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principle place of business of the Company in Hong Kong at Unit 105, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours on any weekday (Saturdays and public holidays excluded) from the date of this circular up to and including 31 May 2016, being the date of the EGM:

- (a) the Articles of Association;
- (b) a copy of each of the material contracts referred to in the section headed “Material contracts” in this Appendix;
- (c) the letters of consent from each of ShineWing Certified Public Accountants (Special General Partnership) and Zhongshuizhiyuan Assets Appraisal Co., Ltd. referred to in the section headed “Experts and Consents” in this Appendix;
- (d) the annual reports of Taiji Computer for the financial years ended 31 December 2013, 2014 and 2015 respectively;
- (e) the report from ShineWing Certified Public Accountants (Special General Partnership) in respect of the review of the financial information of the Server and Software Businesses to be disposed;
- (f) the report from ShineWing Certified Public Accountants (Special General Partnership) in respect of the unaudited pro forma financial information of the Group;
- (g) the letter from ShineWing Certified Public Accountants (Special General Partnership), relating to the profit forecast;
- (h) the valuation report issued by Zhongshuizhiyuan Assets Appraisal Co., Ltd. in respect of Powerleader Computing;
- (i) the annual reports of the Company for the years ended 31 December 2014 and 2015 respectively; and
- (j) this circular.