



Powerleader Science & Technology Group Limited*

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

Stock Code : 8236

Annual Report 2017

中国云
中国赢
宝德云
宝德赢



Characteristics of GEM of The Stock Exchange of Hong Kong Limited (the “Exchange”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

This report, for which the directors of the Company (the “Directors”) of Powerleader Science & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange 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 report 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 report misleading.

CONTENTS

2	Corporate Information
3	Financial Summary
4	Chairman's Statement
7	Management Discussion and Analysis
16	Biographical Details of Directors, Supervisors and Senior Management
18	Report of the Supervisors
19	Directors' Report
27	Corporate Governance Report
32	Environmental, Social and Governance Report
37	Auditor's Report
42	Consolidated Balance Sheet
45	Balance Sheet of the Company
47	Consolidated Income Statement
49	Income Statement of the Company
50	Consolidated Cash Flow Statement
52	Cash Flow Statement of the Company
54	Consolidated Statement of Changes in Owners' Equity
56	Statement of Changes in Owners' Equity of the Company
58	Notes to the Financial Statements
163	Supplementary Information of Financial Statements

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Yunxia (*Chairman*)
Dong Weiping (*President*)

NON-EXECUTIVE DIRECTORS

Li Ruijie (*Vice Chairman*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Shiu Yuen Sammy
Guo Wanda
Jiang Baijun

SUPERVISORS

Shu Ling
Li Xiaowei
Zhou Liqin

COMPANY SECRETARY

Dong Weiping

COMPLIANCE OFFICER

Li Ruijie

AUDIT COMMITTEE

Chan Shiu Yuen Sammy (*Chairman*)
Guo Wanda
Jiang Baijun

REMUNERATION AND APPRAISAL COMMITTEE

Chan Shiu Yuen Sammy (*Chairman*)
Guo Wanda
Jiang Baijun

NOMINATION COMMITTEE

Chan Shiu Yuen Sammy (*Chairman*)
Guo Wanda
Jiang Baijun

STOCK CODE

08236 (H Share)

AUDITOR

ShineWing Certified Public Accountants
(Special General Partnership)

LEGAL ADVISOR

Woo Kwan Lee & Lo (As to Hong Kong laws)

PRINCIPAL BANKERS

Construction Bank
Agricultural Bank
Industrial Bank Co., Ltd.

HONG KONG H SHARE TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F
Hopewell Centre
184 Queen's Road East
Wan Chai
Hong Kong

REGISTERED OFFICE

Room 43A, 43rd Floor, Block C
Electronics Science & Technology Building
Shennan Road Central
Futian District
Shenzhen
The PRC

COMPANY WEBSITE

www.powerleader.com.cn

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Powerleader Technology Park
3 Guanyi Road
Guanlan High-Tech Park
Longhua New District
Shenzhen
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 102, 1/F
Sunbeam Centre
27 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

AUTHORISED REPRESENTATIVES

Dong Weiping
Zhang Yunxia

FINANCIAL SUMMARY

RESULTS	Year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total revenue	3,818,882	3,434,030	2,686,354	1,852,839	1,560,678
Gross profit	318,691	315,101	253,321	227,155	184,319
Gross profit margin	8.35%	9.18%	9.43%	12.26%	11.81%
Profit attributable to shareholders of the Company	218,934	34,932	21,270	53,997	50,224

Financial Position	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	3,251,436	2,848,654	2,822,131	2,291,283	1,765,429
Total liabilities	1,989,472	1,931,301	1,977,181	1,487,987	1,017,741
Minority Interests	34,657	(3)	(2)	(2)	465
Equity attributable to shareholders of the Company	1,227,308	917,357	844,952	803,299	747,223

CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the "Directors") of Powerleader Science & Technology Group Limited (the "Company") (the "Board"), I am pleased to present the results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2017.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2017, the Group's revenue was RMB3,818,881,906, representing an increase of approximately 11.21% as compared to the revenue of RMB3,434,030,211 for the year ended 31 December 2016. Audited profit attributable to shareholders amounted to RMB218,933,835, representing an increase of approximately 526.75% as compared to RMB34,931,506 for the year ended 31 December 2016.

RESULTS REVIEW

In 2017, with cloud servers, cloud distribution and cloud software as the core of its business, the Company worked with its partners in conducting sales, consolidating client resources, and strengthening management of sales. During the year, the Company recorded a growth of 11.21%.

Cloud Infrastructure as a Service (IaaS) — R&D, production, and sales of cloud servers and server accessories related equipment as well as related solutions

Information security remained the vital development strategy for the electronic information industry in 2017. Under the impact of this strategy, domestically produced servers will continue to sustain a rather high speed of development. As IT industries such as cloud computing and big data that were unfamiliar in the past have gradually progressed to maturity, moving from the "construction" phase to the "prevalent" phase, servers, as the pillar product/technology of the internet industry, is actively redefining its position, with standardisation being more visible than innovation, but as the industry experiences drastic transformations, market demand continues to change and market segments gradually becomes distinct, the importance of innovation is starting to become prominent.

As the leading server provider and cloud infrastructure provider in the market, the Company's non-wholly owned subsidiary, Shenzhen Powerleader Computing System Limited* (深圳市宝德计算机系统有限公司) ("Powerleader Computing"), positioning itself as a "bedrock of cloud computing", enjoys a relatively high industry position in areas such as technology, product, and sales, reflected mainly in the following three areas: (1) Powerleader Computing possesses leading independent R&D capability in China; (2) Powerleader Computing possesses a comprehensive product line and a rich variety of products; (3) Powerleader Computing possesses many years of sales and services experience; Powerleader Computing's principal business process is: R&D, procurement, manufacturing, marketing and sales, and technical services. During the year, the Company was strongly focused on innovation, adapting to the contemporary demands of cloud computing and big data industries, and making strong efforts in R&D investment in the field of smart technology. During the year, the prime operating revenue from IaaS increased by 66.87% over the same period of last year.

In 2017, "Made in China 2025" and the "13th Five-year Plan" will focus on implementing the strategy of building a strong nation, with production of smart technology being the core of the focus. Systematic solution capability upgrading operations is one of the important missions proposed by the PRC Ministry of Industry and Information Technology regarding the 2015–2018 action plan for implementing the "State Council's Guidance on Actively Promoting the "Internet+" Operation", and is the key foundation supporting the development of production of smart technology and the core in driving industrial improvement in the standards of production of smart technology. In future, the Company will continue to improve its capacity in providing solutions in server production. Meanwhile, the Company adhered to "Innovation is king" as its belief, and relying on its years of accumulated experience with products, technology, market and services, have continued to strengthen the Company's independent R&D capability and core competitiveness.

CHAIRMAN'S STATEMENT

Cloud Module as a Service (MaaS) — cloud computing equipment key components agency distribution and related value-added services

As information technology develops, new technologies such as cloud computing, big data, virtual reality and artificial intelligence have sprung up successively. Among these, cloud computing will become the mainstream mode of IT operations in future, while big data will be the most vital core resource. As mobile internet spreads from retail consumption to other industries, our lifestyles, industrial mode of operations and corporate development paths have experienced revolutionary changes; every field will be a brand-new market. We aim to be an innovative internet enterprise, led by the concept of the smart city, grounded in cloud computing and big data technologies, and through an innovative business model, realise the Company's transformation from an industrial IT service provider to an industrial operator. In 2017, the Company has continuously strengthened its core technical support capabilities, maintaining a comprehensive and diverse product distribution. However, with ever-increasing market competition, prime operating revenue from MaaS decreased by 12.94% over last year.

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

In 2017, relying on years of technology and experience in software development, the Company has continued our ambitious expansion, with order volume for our cloud computing platform and distributive storage products based on the Company's own research more than doubling that of 2016, gradually becoming a stable income source. Meanwhile, part of our cloud computing platform and distributive storage products performed ahead of other products of the same category in benchmarking tests of national key projects, receiving user recognition, integrating with the current wave of cloud computing development, optimising the business model of cloud computing to better accommodate demands of potential markets of future trends, providing users with further individualised and diversified cloud application requirements, continuing to maintain our position as China's leading integrated cloud services provider.

R&D achievements and intellectual property rights

In 2017, the Company strengthened research and innovation efforts and increased investment in R&D. Adhering to independent R&D, the Company has fully grasped the core technology of products, and realised full control of independent R&D, production, upgrade and maintenance from hardware to software. We have sufficiently leveraged on our expertise in proprietary server R&D and customised services and endeavored in the provision of mega data infrastructure equipment and solutions. Benefitting from the foundation laid down by our 2 quad server, 4 quad server and 8 quad server with proprietary R&D and design, we have developed more proprietary products and presented a wider range of professional choices for the domestic users. Moreover, after years of persistent R&D, the Company had shown remarkable achievements in intellectual property rights, which is evidenced by an aggregate of 87 patents, 98 computer software copyrights and 17 trademarks.

Business Prospects

On 8 July 2017, the State Council of the PRC issued the "Next Generation Artificial Intelligence Development Plan" on development plans of a new generation of artificial intelligence to grasp the vital strategic opportunity in artificial intelligence development, build a leading edge in China's artificial intelligence development, and accelerate the construction of an innovative nation and global technology powerhouse.

The development of the internet industry is advancing at breakneck speed. The trend of the times march on with the emergence of an endless variety of new technology and new models — cloud computing, big data, IoT, artificial intelligence, mobile, blockchain — creating a dizzying spectacle, and a new generation of information technology serves as their vital support and foundational security. A symbiosis of new industries inspiring the new generation of information technology and the new generation of information technology driving the development of new industries is forming. Meanwhile, traditional industries is in the process of complete transformation, bringing robust demand to the information industry. Through the new generation of information technology driving innovation in products and business model, supply-side structural reform will be implemented and deep integration between the new generation of information technology and industrial application will be realised.

Looking ahead, in 2018, the Company will continue to strengthen its capacity in serving its users and drive the upgrading of traditional industries. Meanwhile, 2018 will be a significant year for investment in China's information technology sector, with artificial intelligence, deep learning, smart manufacturing set to experience rapid development. The Company will center on the key strategy of becoming a manufacturing powerhouse, and relying on its years of experience in cloud computing, will promote the integrated application of systems such as smart manufacturing of vital technological equipment, core supporting software and internet, and conduct R&D of smart products and smart connected products, smart manufacturing systems and smart manufacturing cloud platforms.

CHAIRMAN'S STATEMENT

APPRECIATION

Finally, on behalf of the Board of Directors, I would like to express heartfelt gratitude to our customers and suppliers for their enduring support to and trust in the Group, and to extend thanks to all the staff of the Group for their diligence and dedication. In 2018, the Group will make full use of its resources and market advantages, actively strengthen our corporate competitiveness, in order to shape the Group as a "Comprehensive Internet Cloud Service Supplier", and endeavor to provide a brighter future for the Company and satisfactory returns for our shareholders.

Powerleader Science & Technology Group Limited
Zhang Yunxia
Chairman

Shenzhen, the PRC
29 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 December 2017, the Group recorded revenue of RMB3,818,881,906 and profit attributable to equity owners of the Company of RMB218,933,835 as compared to revenue and profit attributable to equity owners of RMB3,434,030,211 and RMB34,931,506 for the year ended 31 December 2016, representing an increase of 11.21% and 526.75% respectively. Earnings per share was RMB0.9010 (2016: RMB0.1438) and net assets per share of the Company was RMB5.05 (2016: RMB3.78).

Revenue

The revenue of the Group for the year ended 31 December 2017 and the comparative figures of 2016 as classified by businesses were as follows:

	2017		2016		Change
	RMB	%	RMB	%	%
Income from the principal business					
Cloud Infrastructure as a Service (IaaS)	1,719,837,752	45.03	1,030,655,215	30.01	66.87
Cloud Module as a Service (MaaS)	2,012,043,595	52.69	2,311,179,735	67.30	(12.94)
Software and Platform as a Service (SaaS & PaaS)	72,112,342	1.89	84,935,255	2.48	(15.10)
Income from other business	14,888,217	0.39	7,260,006	0.21	105.07
Total	3,818,881,906	100	3,434,030,211	100	11.21

The Group's revenue was mainly derived from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS). With reference to the table above, for the year ended 31 December 2017, prime operating revenue from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) amounted to RMB1,719,837,752 and RMB2,012,043,595 respectively (2016: RMB1,030,655,215 and RMB2,311,179,735), accounted for 45.03% and 52.69% (2016: 30.01% and 67.30%) of total revenue respectively. Revenue from Cloud Infrastructure as a Service (IaaS) increased by 66.87%, which was mainly attributable to the Group's significant increase in revenue from major customers and industry customers during the year. Revenue from Cloud Module as a Service (MaaS) decreased by 12.94%, mainly due to increasing market competition in the IT industry during the year. Further details of business analyses are set out in the paragraph "Business Review" below.

Gross Profit

	Revenue		Gross Profit		Gross Profit Margin	
	2017 RMB	2016 RMB	2017 RMB	2016 RMB	2017 %	2016 %
Income from the principal business						
Cloud Infrastructure as a Service (IaaS)	1,719,837,752	1,030,655,215	230,323,024	200,778,802	13.39	19.48
Cloud Module as a Service (MaaS)	2,012,043,595	2,311,179,735	71,889,836	88,417,450	3.57	3.83
Software and Platform as a Service (SaaS & PaaS)	72,112,342	84,935,255	2,444,071	19,093,703	3.39	22.48
Income from other business	14,888,217	7,260,006	14,034,383	6,811,453	94.27	93.82
Total	3,818,881,906	3,434,030,211	318,691,314	315,101,408	8.35	9.18

The Group's gross profit increased from RMB315,101,408 for the year ended 31 December 2016 to RMB318,691,314 for the year ended 31 December 2017, representing an increase of 1.14%.

The Group's overall gross profit margin decreased from 9.18% for the year ended 31 December 2016 to 8.35% for the year ended 31 December 2017. Gross profit margin of Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) decreased from that of 2016, mainly attributable to the Company's promotion strategy of lowering price for the purpose of increasing sales volume and the increasing market competition in the Cloud Module as a Service (MaaS) business. Further details of business analyses are set out in the paragraph "Business Review" below.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales expenses

Sales expenses mainly comprised of, amongst others, salaries of sales personnel, marketing expenses, rents and transportation cost. For the year ended 31 December 2017, sales expenses in total were RMB88,501,313, compared to the total sales expenses of RMB81,041,852 for the year ended 31 December 2016, representing an increase of 9.20% from last year. This was mainly due to the increase in employees and salary and the increase in reimbursement of expenses accompanying growth in sales.

Administrative expenses

Administrative expenses mainly comprised of, amongst others, amortisation of intangible assets, salaries of management personnel, depreciation, R&D cost. For the year ended 31 December 2017, total administrative expenses were RMB180,071,006, compared to the total administrative expenses of RMB89,628,803 for the year ended 31 December 2016, representing an increase of 100.91% from last year. This was mainly due to R&D expenditure capitalised and expensed of RMB49,026,859.19 and development expenditure being treated as expenses, and share-based payment expenses incurred of RMB28,227,730.39.

Finance costs

Finance costs mainly comprised of, amongst others, interest expenses, exchange gain or loss, and handling fees. For the year ended 31 December 2017, total finance costs were RMB62,417,219, compared to the total finance costs of RMB72,430,090 for the year ended 31 December 2016, representing a decrease of 13.82% from last year. This was mainly due to the rapid appreciation of the RMB, leading to substantial gains from exchange of foreign currency.

Assets, liabilities and shareholders' equity

As at 31 December 2017, current assets of the Group amounted to RMB2,407,069,075 (2016: RMB2,023,654,282), which mainly comprised of cash and cash equivalents of RMB327,110,899 (2016: RMB349,605,798), trade and bills receivables of RMB891,102,951 (2016: RMB923,900,414), inventories of RMB483,969,808 (2016: RMB351,976,260). Non-current assets amounted to RMB844,367,300 (2016: RMB824,999,818), which mainly comprised of long-term equity investment of RMB131,924,628 (2016: RMB162,517,683), fixed assets of RMB299,487,005 (2016: RMB431,096,863), intangible assets and development costs of RMB6,061,275 (2016: RMB114,107,867). Total assets were RMB3,251,436,375 (2016: RMB2,848,654,100).

As at 31 December 2017, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,170,519,453 (2016: RMB1,171,951,441) and accounts payable of RMB378,278,483 (2016: RMB180,757,074). Non-current liabilities mainly include long-term borrowings of RMB43,000,000 (2016: RMB79,000,000). Total liabilities were RMB1,989,472,004 (2016: RMB1,931,300,621).

As at 31 December 2017, the Group's equity attributable to the shareholders of the Company was RMB1,227,307,758 (2016: RMB917,356,802).

Significant investment, acquisition and disposal of subsidiaries and associates

In June 2016, the Company contemplated to dispose the Group's Shenzhen internet data centre business and value-added cloud services business through a transfer of Shenzhen Baoteng Internet Technology Limited* (深圳市宝騰互聯科技有限公司) ("Baoteng Internet") to Shenzhen ZQGAME Co. Ltd.* (深圳中青寶互動網絡股份有限公司) ("Zqgame"), an associated company of the Company; on 1 September 2016, the Company and Zqgame entered into an agreement, pursuant to which the Company conditionally agreed to sell, and Zqgame conditionally agreed to purchase the entire equity interest in Baoteng Internet for a consideration of RMB500 million. At the same time, the Company guaranteed to Zqgame that the audited net profit of Baoteng Internet for the years 2017, 2018 and 2019 will in aggregate be not lower than RMB110,361,605.80 (that is, the valuation using the income approach forming the basis of the consideration of the disposal), and provide asset impairment compensation for the aforementioned period for Baoteng Internet; on 1 March 2017, the Company, Zqgame, Mr. Li Ruijie and Ms. Zhang Yunxia entered into the supplementary agreement to the profit guarantee compensation agreement, pursuant to which the parties to the agreement agreed that the maximum amount of the profit guarantee compensation and the asset impairment compensation will not exceed RMB110,361,605.80, and that any part of the profit guarantee compensation and asset impairment compensation in excess of such an amount will be borne by Mr. Li Ruijie and Ms. Zhang Yunxia; on 26 June 2017, the transaction was approved by a vote at the Company's extraordinary general meeting; on 29 June 2017, the subject matter of the transaction has been fully delivered, with the Company no longer operating the Shenzhen internet data centre business and value-added cloud services business. For details, please refer to the Company's disclosure circular dated 9 June 2017).

MANAGEMENT DISCUSSION AND ANALYSIS

On 10 May 2017, the Company held a meeting of the Board to review the Resolution on Disposal of Interest in Sichuan Baoteng Internet Technology Limited and signed an equity transfer agreement. The Company transferred its holding of 49% equity in Sichuan Baoteng (corresponding to registered capital of RMB960,800) to Mr Chen Zewei at a consideration of approximately RMB6,132,311.20 (net book value of long term equity investment). As at 31 December 2017, the Company no longer holds any interest in Sichuan Baoteng.

On 10 November 2017, the Company, the Shenzhen Enterprise Insolvency Association and the Bankruptcy and Liquidation Administrator entered into the auction completion confirmation. Pursuant to the auction completion confirmation, the parties confirmed that the Company is the successful bidder in the judicial auction in respect of the acquisition of the land use rights of land no. A621-0042, located on the east side of Longda Expressway (龍大高速) and the south side of No.5 Road (五號路) in the Guangming High-Tech Industrial Development Zone (光明高新區) with land use area of approximately 13,184 square meters, as well as the construction in progress on the abovementioned land, at the consideration of RMB194,608,288.84. The judicial auction which was bidden in the name of the Company was jointly participated by the Company and Shenzhen Shenshang Holding Group Co., Ltd. (深圳市深商控股集團股份有限公司) ("Shenzhen Shenshang") in the proportion of 60% and 40% respectively. The consideration paid was contributed by the Company and Shenzhen Shenshang as to approximately 60% and 40% respectively. (Please refer to the Company's disclosure announcement dated 10 November 2017 for details.)

On 27 December 2017, the Company, Khorgas Powerleader Venture Capital Limited* (霍爾果斯寶德創業投資有限公司) ("Powerleader VC", a wholly-owned subsidiary of the Company), Tianjin Baojie Hechuang Business Management Partners* (LP) (天津寶傑合創企業管理合夥企業 (有限合夥)) ("Baojie Hechuang"), Tianjin Baoyun Gongchuang Business Management Partners* (LP) (天津寶雲共創企業管理合夥企業 (有限合夥)) ("Baoyun Gongchuang"), Tianjin Baolun Jiechuang Business Management Partners* (LP) (天津寶倫捷創企業管理合夥企業 (有限合夥)) ("Baolun Jiechuang") and Tianjin Baolong Huichuang Business Management Partners* (LP) (天津寶龍慧創企業管理合夥企業 (有限合夥)) ("Baolong Huichuang") entered into the capital contribution agreement with Shenzhen Powerleader Computing System Limited (深圳市寶德計算機系統有限公司) ("Powerleader Computing"), pursuant to which Baojie Hechuang, Baoyun Gongchuang, Baolun Jiechuang and Baolong Huichuang agreed to make capital contributions of RMB11,145,000, RMB10,170,000, RMB8,355,000 and RMB6,780,000 respectively to Powerleader Computing. The total capital contribution amounts to RMB36,450,000, of which RMB3,076,600 will be applied to the registered capital of Powerleader Computing, while the remainder of RMB33,373,400 will be applied to the capital reserve of Powerleader Computing. The capital contribution will result in the Group's interest in Powerleader Computing being diluted from 100% to approximately 92.51%. Pursuant to Rule 19.29 of the GEM Listing Rules, the relevant dilution will be a deemed disposal of the Company's interest in a subsidiary. (Please refer to the Company's disclosure announcement dated 27 December 2017 for details.)

Currency Risk

The Company and some of its subsidiaries conduct sales and procurement settlement in foreign currencies, which expose the Group to foreign currency risks. In 2017, approximately 69% (2016: 63%) of the Group's sales were denominated in currencies other than the functional currency of the Group's entities for the sales, and approximately 23% (2016: 29%) of the costs were denominated in the Group entities' functional currencies.

Gearing Ratio

As at 31 December 2017, the gearing ratio of the Group was approximately 61.19% (2016: 67.80%), which is determined by the Group as the percentage of total liabilities to total assets. The gearing ratio decreased by 6.61 percentage points compared to last year.

BUSINESS REVIEW

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

Information security remained the vital development strategy for China's electronic information industry in 2017. Under the impact of this strategy, domestically produced servers will continue to sustain a rather high speed of development. As IT industries such as cloud computing and big data that were unfamiliar in the past have gradually progressed to maturity, moving from the "construction" phase to the "prevalent" phase, servers, as the pillar product/technology of the internet industry, is actively redefining its position, with standardisation being more visible than innovation, but as the industry experiences drastic transformations, market demand continues to change and market segments gradually becomes distinct, the importance of innovation is starting to become prominent.

MANAGEMENT DISCUSSION AND ANALYSIS

As the leading server provider and cloud infrastructure provider in the China market, the Company's non-wholly owned subsidiary Powerleader Computing, positioning itself as a "bedrock of cloud computing", enjoys a relatively high industry position in areas such as technology, product, and sales, reflected mainly in the following three areas: (1) Powerleader Computing possesses leading independent R&D capability in China; (2) Powerleader Computing possesses a comprehensive product line and a rich variety of products; (3) Powerleader Computing possesses many years of sales and services experience. The Company is strongly focused on innovation and adapting to the contemporary demands of cloud computing and big data industries, and making strong efforts in R&D investment in the field of smart technology. During the year, the prime operating revenue from IaaS increased by 66.87% over the same period of last year.

IT technology advances rapidly. In 2017, supported by cloud infrastructure application, usage of big data and artificial intelligence exploded in popularity, while infrastructure in fields relating to IoT and Smartcity has gradually been established. Relying on deep technology accumulation and agile market response, Powerleader servers have rapidly completed a computing foundational layout of cloud computing, big data and artificial intelligence. In 2017, market promotion for Powerleader servers adhered to the positioning as "bedrock of cloud computing and Smartcity, carrier of big data and artificial intelligence", along with the slogan of "Stronger and faster with tech unity", and through marketing activities, self-media broadcast, and infiltration marketing, conduct all-round market promotion of the Powerleader brand, further enhancing the professional image of Powerleader servers.

For R&D, the birth of Powerleader's self-developed 4-GPU server PR4860G-24 provided an impeccable solution to hardware limitations. Powerleader's 4-GPU server PR4860G-24 supports 4 M60 cards for virtualisation, and is the world's first 4-GPU server that can support installation of 4 M60 cards. Such design and configuration enables not only smooth rendering of images in the virtualisation process, but also ensure the security and stability of corporate or project data, while greatly raising corporate or project resource utility, saving on total cost of ownership. In addition, Powerleader launched a blockchain server, which utilises an Intel B250 motherboard paired with an Intel Celeron G3900 processor (dual core with 2 threads, 2.8GHz processor base frequency and 2MB cache) for great cost performance, 8 AMD RX 570 4G display cards (Samsung memory module) for extremely high computational power, as well as a 1,600W uninterrupted power supply unit for lower power consumption.

With regard to marketing activities, in 2017 Powerleader persisted in a dual approach of self-organisation and active participation. Gathering Powerleader's own advantages and strengths, it convened focus seminars targeting clients from industries such as education, internet, AI, security surveillance, internet security, as well as channel partners. In 2017, Powerleader hosted a total of 31 activities relating to the theme of "Stronger and faster with tech unity — Powerleader-Intel server technology exchange forum" in cities such as Shenzhen, Beijing, Shanghai, Nanjing, Hangzhou, Jinan, Changsha, Wuhan, Taiyuan, Nanning and Harbin, conducting an intuitive demonstration and in-depth presentation of products such as the new server product based on the latest Intel® Xeon® Scalable processors, GPU servers suited for artificial intelligence and deep learning, storage servers suited for security surveillance and Smartcity, and surveillance cloud storage and hyperconverged cloud integrated machines, allowing clients and target clients of various fields in-depth appreciation of Powerleader's product and technology capabilities, providing supportive guidance in product selection, and building a good foundation for promoting sales and securing orders. Meanwhile, displaying new products and new solutions kept up the professional image and vibrancy of Powerleader's servers, strengthening confidence for partnering clients. Further, Powerleader actively sponsored and participated in conferences or forums for the IT industry or professional fields organised by third parties, and through forms such as booth display and talks, publicise the Powerleader brand and product technology, providing for its sales team a good platform for tapping business opportunities, promoting greater understanding of Powerleader and products and solutions for target clients. Particularly, it focused resources and heavily prepared for its participation in the Intel-hosted solution summit, energy and manufacturing summit and vertical industry summit, as well as multiple conferences on artificial intelligence, a conference on innovative internet development, a conference on cloud computing and big data, and a software expo where we strengthened partnerships with those deeply cultivating in the industry, displaying Powerleader's products and solutions and capabilities, learning on the fly and, together with clients and partners, provide comprehensive solutions for industrial applications/client transformations. Additionally, in 2017 the Powerleader Group made a high profile participation in the 19th China Hi-Tech Fair, showcasing its comprehensive business layout with an integrated display of Powerleader servers, the Powerleader IDC, Powerleader cloud, and IT distribution as well as its brand image as a provider of comprehensive IT solutions.

On self-media, Powerleader insisted on the timeliness and intelligibility of its publications on self-media with sustained frequency, increasing fan stickiness and client interest, letting readers follow closely the developments in Powerleader, its strategy, the market, and products, displaying the vibrancy of Powerleader, and attracting more interest from target clients in choosing Powerleader as a partner; and at the same time publish instantaneously reports of successful tenders and cases of Powerleader's business, such as the Jinri Toutiao deal, worth several hundred million, the successful tender for iFlytek, the Meitu case study, the SenseTime case, the BRICS summit security application, the successful tender for the Skynet project, and the Face++ and IntelliFusion case studies, using orders and client cases to validate the product and solution capabilities of Powerleader, providing demonstration for more industry clients, strengthening Powerleader's credentials, promoting higher order volume from clients.

As for advertising, Powerleader's commercials in 2017 has been flattened to placing advertisements in traditional classic web media Zhiding, CCIDnet, 51CTO as well as China Public Safety, which promotes the application of AI servers in security and Smartcity business, on brand new products and their applications, enhancing Powerleader's professional image, exhibiting its professional capability and active and trendy innovative developments.

MANAGEMENT DISCUSSION AND ANALYSIS

Honours:

In January 2017: the 8 quad secured and controllable server PR8800G of Powerleader Science & Technology Group was recognised as “2016 Best Cloud Server”;

In January 2017: the 8 quad secured and controllable server PR8800G of Powerleader Computing was recognised as “Good Product in Shenzhen”;

In January 2017: the 4 quad secured and controllable server PR4880G of Powerleader Computing was recognised as “Good Product in Shenzhen”;

In January 2017: Powerleader Computing was awarded the “Innovative Enterprise in 2016”;

In January 2017: Powerleader Computing was named the “Unit with Outstanding Contribution for Military-Civilian Integration in 2016”;

In March 2017: Powerleader Science & Technology Group was named the “Top 100 Enterprises in Longhua District of Shenzhen Municipality in 2016”;

In April 2017: Powerleader Computing was named “Excellent Service Provider of New Intelligent City Model Construction of Jilin Province in 2017”;

In May 2017: Powerleader Science & Technology Group was named “Top 10 Internet Brands of Shenzhen in 2016”;

In May 2017: Powerleader Computing was awarded the “Cloud China 2017 Cloud Sail Award”;

In August 2017: Powerleader Science & Technology Group was named “Excellent Product Supplier in 2017”;

In September 2017: Powerleader Computing’s “Guizhou Shuanglong Airport Economic Zone Big Data Analysis Platform” was named “Model Case for Big Data Application in China 2017”;

In October 2017: Powerleader Science & Technology Group was awarded the “Recommended Brand in Building China’s Smartcity 2017”

In November 2017: Powerleader Science & Technology Group was awarded the “Excellent Dealer in 2018” by the data centre channel business department of Intel (China) Co., Ltd.;

In November 2017: Powerleader Science & Technology Group was awarded the “Tengfei Award in 2017” by the data centre channel business department of Intel (China) Co., Ltd.;

In November 2017: Powerleader Science & Technology Group was awarded the “Strategic Partner in 2017” by the data centre channel business department of Intel (China) Co., Ltd.;

In November 2017: Powerleader Science & Technology Group was awarded the “Excellent Product Award” for its original 8 quad server PR8800G;

In November 2017: Powerleader Science & Technology Group was named in the “5th Top 100 Innovative SME in Shenzhen”;

In November 2017: Powerleader Science & Technology Group was ranked 107th in the “Top 500 Manufacturers in Guangdong”;

In December 2017: Powerleader Science & Technology Group qualified as a postgraduate training base of the Shenzhen Institute of Advanced Technology of the Chinese Academy of Sciences;

In December 2017: Powerleader Computing was awarded the “Excellent Cloud Server Provider in 2017 (Business Partnership Advisor)”;

MANAGEMENT DISCUSSION AND ANALYSIS

In December 2017: Powerleader Computing was awarded the “Cloud Server Provider in 2017 (Business Partnership Advisor)”;

In December 2017: Powerleader Computing was awarded the “Toshiba Best Partner Award”;

In December 2017: Powerleader Science & Technology Group was named “Top 100 Shenzhen Enterprises in 2017”;

In December 2017: Powerleader Science & Technology Group’s chairman Zhang Yunxia was named “100 Industry Leaders of Shenzhen in 2017”.

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

As information technology develops, new technologies such as cloud computing, big data, virtual reality and artificial intelligence have sprung up successively. Among these, cloud computing will become the mainstream mode of IT operations in future, while big data will be the most vital core resource. As mobile internet spreads from retail consumption to other industries, our lifestyles, industrial mode of operations and corporate development paths have experienced revolutionary changes; every field will be a brand-new market. We aim to be an innovative internet enterprise, led by the concept of the smart city, grounded in cloud computing and big data technologies, and through an innovative business model, realise the Company’s transformation from an industrial IT service provider to an industrial operator. In 2017, the Company has continuously strengthened its core technical support capabilities, maintaining a comprehensive and diverse product distribution. However, with ever-increasing market competition, prime operating revenue from MaaS decreased by 12.94% over last year.

Software and Platform as a Service (SaaS & PaaS) — provision of development and services of cloud computing related software and platform

In 2017, relying on years of technology and experience in software development, the Company has continued its ambitious expansion, with order volume for our cloud computing platform and distributive storage products based on the Company’s own research more than doubling that of 2016, gradually becoming a stable income source. Meanwhile, part of our cloud computing platform and distributive storage products performed ahead of other products of the same category in benchmarking tests of national key projects, receiving user recognition, integrating with the current wave of cloud computing development, optimising the business model of cloud computing to better accommodate demands of potential markets of future trends, providing users with further individualised and diversified cloud application requirements, continuing to maintain our position as China’s leading integrated cloud services provider.

Guangzhou internet data centre

The principal business direction of the Company’s self-built internet data centre in Guangzhou is professional internet data centre business, providing clients with a range of customised services including data centre server rooms, modularisation, servers and storage systems, as well as server rack and server rental and server deposit services.

As to the Guangzhou internet data centre business, the Company has committed that, upon completion and fulfilment of conditions for selling the Guangzhou internet data centre business to Zqgame and such a sale has no substantial obstacles, the Company may negotiate with Zqgame and upon reaching and entering into an agreement to sell the Guangzhou internet data centre business to Zqgame. The Company will continue to develop the Guangzhou internet data centre business, and with the Company having several years of experience in the internet data centre industry, it is expected that the Guangzhou internet data centre business will continue to grow in future. When the Guangzhou internet data centre business realises certain profits, the Company will consider disposing of the Guangzhou internet data centre business.

Bank financing and capital management

In 2017, the central bank implemented a stable currency policy, with a gradual tightening of credit volume. Based on its strategic planning, the Company grasped opportunities in credit investment in the real economy, maintaining good partnership relations with financial institutions, sustaining a stable financing volume and effectively reduced financing costs.

MANAGEMENT DISCUSSION AND ANALYSIS

GOVERNMENT SUPPORT

In 2017, the Company continued to double its efforts in applying for government project funding and awards. With cloud computing, servers, big data and artificial intelligence as its core content, the Company applied for a number of qualification accreditations and project funding, and several of its research projects have passed the inspection and acceptance procedures. In connection with partnerships with external parties, the Company has been conducting R&D partnerships with universities and R&D institutions with a view to absorbing skilled professionals and advanced technologies.

In 2017, the Group received a number of highly influential government subsidies, which are detailed as follows:

In January 2017: the 8 quad secured and controllable server PR8800G of Powerleader Science & Technology Group was recognised as “2016 Best Cloud Server”;

In January 2017: the 8 quad secured and controllable server PR8800G of Powerleader Computing was recognised as “Good Product in Shenzhen”;

In January 2017: the 4 quad secured and controllable server PR4880G of Powerleader Computing was recognised as “Good Product in Shenzhen”;

In January 2017: Powerleader Computing was awarded the “Innovative Enterprise in 2016”;

In January 2017: Powerleader Computing was named the “Unit with Outstanding Contribution for Military-Civilian Integration in 2016”;

In March 2017: Powerleader Science & Technology Group was named the “Top 100 Enterprises in Longhua District of Shenzhen Municipality in 2016”;

In April 2017: Powerleader Computing was named “Excellent Service Provider of New Intelligent City Model Construction of Jilin Province in 2017”;

In May 2017: Powerleader Science & Technology Group was named “Top 10 Internet Brands of Shenzhen” in 2016;

In May 2017: Powerleader Computing was awarded the “Cloud China 2017 Cloud Sail Award”;

In August 2017: Powerleader Science & Technology Group was named “Excellent Product Supplier in 2017”;

In September 2017: Powerleader Computing’s “Guizhou Shuanglong Airport Economic Zone Big Data Analysis Platform” was named “Excellent Case of Big Data Application in China 2017”;

In October 2017: Powerleader Science & Technology Group was recognised as a “Top 500 Manufacturer in Guangdong” by the Guangdong Manufacturers Association;

In October 2017: Powerleader Science & Technology Group and Powerleader Computing received subsidies in the form of Innovation Vouchers from Shenzhen Science and Technology Innovation Council;

In October 2017: Powerleader Science & Technology Group was recognised as a “Top 100 Innovative SME in Shenzhen”;

In October 2017: Powerleader Computing and Powerleader software successfully received accreditation as national level high tech enterprises;

In November 2017: Powerleader Science & Technology Group and Powerleader Computing received subsidies from the Futian District Industrial Development Programme — Technological Breakthrough Projects package funding;

In November 2017: Powerleader Science & Technology Group received subsidies from the 2017 Commission of Economy and Informatisation Integrated Military-Civilian Self-financed Scientific Research Projects R&D funding;

MANAGEMENT DISCUSSION AND ANALYSIS

In November 2017: Powerleader Software received subsidies from the Shenzhen Strategic Emerging Industries New IT Generation Information Security Programme 2017 support funding;

In December 2017: Powerleader Science & Technology Group partnered with the Chinese Academy of Sciences Shenzhen Institute of Advanced Technology in organising a postgraduate training base;

In December 2017: Powerleader Science & Technology Group was awarded the “Shenzhen Industry Grand Prize” and chairman Ms. Zhang Yunxia the “Industrialist Grand Prize” by the Federation of Shenzhen Industries.

ASSOCIATED COMPANY

Zqgame, an associate which is held as to 15.24% interest by the Company, is principally engaged in internet gaming business, cloud service business, and technological and cultural tourism business. Zqgame’s revenue in 2017 was RMB313,223,143.38, a decrease of 17.09% over 2016. Zqgame’s net profit attributable to shareholders in 2017 was RMB50,296,660.75, a growth of 238.30% over 2016. This is mainly attributable to (i) Zqgame is currently in a key phase of internal business optimisation, conducting strategic positioning and investments in its new businesses, and it has achieved intermediate success in offline entertainment with initial effectiveness in cultural and technological creative projects; (ii) dividends from investments in companies and disposal of part equity interest gave rise to higher income; (iii) the occurrence of merger of companies under common control during the period, which had a positive impact on the profits of Zqgame as it expanded its business development direction. In the future, Zqgame will strengthen R&D in its own gaming business, actively using advanced technology in its focus on building excellent games that meet market demand, in order to raise industrial competitiveness.

Beijing Haiyun Jiexun Technology Limited (“Haiyun Jiexun”), an associate which is held as to 10.135% interest by the Company, is principally engaged in OpenStack operation and maintenance services, recording in 2017 a turnover of approximately RMB53,098,293.00, a growth of 29.91% over the same period last year, and a net loss attributable to ordinary shareholders of Haiyun Jiexun of approximately RMB10,954,629.94, a drop of 300.91% over the same period last year. This is mainly attributable to Haiyun Jiexun increasing investment in research and development. In 2017, Haiyun Jiexun had continued increasing investment in research and development, mainly centering on research and development of products related to private cloud, public cloud, hybrid cloud, etc. In future, Haiyun Jiexun will rely on OpenStack to devote to the research and development of key areas including tertiary institutions, scientific research institutes, healthcare, and IDC.

HUMAN RESOURCES

Human resources planning, recruitment and performance appraisal

In 2017, the Company sustained good management of human resources, accomplished human resource planning with a scientific approach and improved organisational structure, forming an organisational structure model with performance directives for its business segments, raising efficiency per capita. Meanwhile, the Company established a competitive compensation system and a generous welfare system, building a profit-sharing performance distribution system, in order to motivate its staff, laying a solid foundation for the sustainable and healthy development of the Company and providing strong security for the Company to remain invincible in the face of fierce competition.

Building and training of talent pool

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

Corporate culture and staff relationships

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

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

Policies relating to support for the cloud computing industry issued by various levels of the PRC government during 2017 is summarised as follows:

State council policies

The rapid development of artificial intelligence will deeply alter human society and lifestyle and change the world. In order to grasp the vital strategic opportunity of artificial intelligence development, build a leading edge in China's artificial intelligence development, accelerate the construction of an innovative nation and a global technology powerhouse, the Company has formulated the plan based on the positioning directions of the Politburo and the State Council. On 8 July 2017, the State Council issued a notice concerning the development plans of a new generation of artificial intelligence. The priority mission is to, based on China's overall development, accurately grasp the development trends in worldwide artificial intelligence development, find the breakthrough point and main direction of attack, strengthen all-round technology innovation foundational capability, extensively expanding application depth and breadth of focus fields, and broadly raise the standards of economic and social development and smart technology application in national security.

Looking ahead, in 2018, the Company will continue to strengthen its capacity in serving its users and drive the upgrading of traditional industries. Meanwhile, 2018 will be a significant year for investment in China's information technology sector, with artificial intelligence, deep learning, smart manufacturing set to experience rapid development. The Company will center on the key strategy of becoming a manufacturing powerhouse, and relying on its years of experience in cloud computing, will promote the integrated application of systems such as smart manufacturing of vital technological equipment, core supporting software and industrial internet, and conduct R&D of smart products and smart connected products, smart manufacturing of enabling tools and systems and smart manufacturing of cloud platforms.

Bank financing and capital management

Looking ahead in 2018, the Central Bank will continue to implement a stable currency policy. With the deepening of deleveraging and bubble-bursting, credit policies will further lean towards the real economy. The Company will continue to strengthen relations with financial institutions, trying out new forms of financial instruments, in order to protect its business development. Meanwhile, it will strengthen management of the Company's internal resources, in order to secure the security and effectiveness of its resources.

Human resources

Looking forward to 2018, the Group will optimize human resources management system, complete talent management system and strengthen multi-channel, multi-level manpower input duct construction. According to the requirements of enterprise development strategy, the Group will systematically have rational allocation of human resources. For talent management, the Company will make use of employees appraisal and incentive measures to fully mobilize positivity of its employees to develop their potentiality, and create a passionate and creative excellent team, thus providing protection for its long-term continuous development.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following sets out the biographical details of the Directors, supervisors and senior management of the Company:

DIRECTORS

Executive directors

Ms. Zhang Yunxia, aged 52, the Company's founder, chairman of the Board and an executive Director. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankai University, Tianjin in 1988, and obtained a master's degree in tourism management from the same university in 1990. She had previously served in Shenzhen Wan Tong Software Engineering Limited. She co-founded Shenzhen Xin Le He Electronics Limited with Mr. Li Ruijie in 1991 and co-founded the Company with Mr. Li Ruijie in 1997. At present, she is mainly serving as a director of Shenzhen Powerleader Investment Holdings Limited and of Zqgame. She is also concurrently acting as the vice president of the Shenzhen Software Industry Association, and vice president of the Shenzhen Association of Women Entrepreneurs. She has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the management of the overall strategies and policies of the Company.

Mr. Dong Weiping, aged 57, an executive Director, president and company secretary of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's degree in computer systems engineering. Since 1982, Mr. Dong has served in a number of information technology companies. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the overall operation management of the Company. He has also been appointed as the company secretary of the Company by the Board on 6 July 2016.

Non-executive Director

Mr. Li Ruijie, aged 50, the founder, vice chairman of the Board and a non-executive Director of the Company. He graduated from the Nankai University with a double bachelor's degree in economics and electronics in 1989, and obtained an EMBA degree from Cheung Kong Graduate School of Business in 2012. He had previously served in Shenzhen Shanbao Electronics Co., Ltd. Shenzhen Wan Tong Software Engineering Limited. He co-founded Shenzhen Xin Le He Electronics Limited with Ms. Zhang Yunxia in 1991 and co-founded the Company with Ms. Zhang Yunxia in 1997. At present, he is mainly serving as the chairman of Shenzhen Powerleader Investment Holdings Limited and as the chairman and general manager of Zqgame. He is also concurrently serving as an expert in the cloud computing research center under the Ministry of Industry and Information Technology Software and Integrated Circuit Promotion Centre (CSIP), as an executive vice president in Shenzhen General Chamber of Commerce Chaoshan Chamber of Commerce, as an executive director of Shenzhen General Chamber of Commerce (Association of the Industrialists and Businessmen), as the vice president of Futian General Chamber of Commerce, and Shenzhen Charity Federation as vice president, among other positions in public service. He was appointed as the honorary chairman of the Chamber of Commerce of Jieyang in Shenzhen in 2012; the 14th session of member of Central Committee of the China Zhi Gong Party in 2013, member of social services, the chairman of the Second Branch of Zhi Gong Party in Longhua Shenzhen, president of Union Council of the mobile games in China in 2013; and the member of the CPPCC of Shenzhen in 2015. Mr. Li has been appointed for the current term of office as a non-executive Director on 30 June 2016.

Independent Non-executive Directors

Mr. Chan Shiu Yuen Sammy, aged 53, an independent non-executive Director of the Company, has more than 21 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Chan was the qualified accountant, company secretary and authorized representative of the Company, the deputy general manager of China Fibretech Limited and the chief financial officer of Newtree Group Holdings Limited. He is currently a director of Brilliant Consultancy Limited. Mr. Chan has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

Dr. Guo Wanda, aged 52, 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 vice president of China Development Institute. He is the vice president of China Development Institute of Shenzhen, the chairman of Shenzhen Association of Management Consultants, and also a committee member of the advisory committee of Shenzhen municipal government. He has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Jiang Bajiun, aged 56, graduated from the China Central Radio and TV University and majored in Chinese Literature. He was previously a secondary school teacher in Xian. He was engaged by the newspaper, Computerworld, as a special commentator on market development, and hosted a CEO interview program. He was the China market strategic consultant of AST, the market strategic consultant of Create Group, the market strategic consultant of the office automation department of Digital China (Toshiba China business), the market strategic consultant and strategic development consultant of HP China, and also the market strategic consultant of the product market in Compaq in China. Mr. Jiang was engaged as the market strategic consultant of the Hong Kong China Business of NEC (Notebook computer and monitor business), and was appointed the market strategic consultant of the monitor business of PHILIPS China, as well as the market strategic consultant of the peripheral product business of Legend Computer. Mr. Jiang was also the chief consultant in strategic development of Shenzhen Qinzhong Electronics, and the market strategic consultant of Huayu Bancoo. Mr. Jiang has been the market strategic consultant of the PC business of IBM China (notebook computer business), as well as the market strategic consultant of the Panasonic business and FUJITSU business of the China Daheng Group. Mr. Jiang has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

SUPERVISORS

Ms. Shu Ling, aged 43, graduated with a bachelor's degree in biology education from Guizhou Normal University. She is currently the chairman of the supervisory committee of the Company.

Ms. Li Xiaowei, aged 41, holds a bachelor's degree in electrical automation engineering from Xian University of Technology in the PRC. Ms. Li had worked with Jiangsu Yizheng Wellong Piston Ring Co., Ltd. as an equipment maintenance engineer. Ms. Li is currently a supervisor of the Company, and the chief operation officer of Baotong Zhiyuan, a subsidiary of the Company.

Ms. Zhou Liqin, aged 45, graduated from the Jingdezhen Ceramic Institute with a bachelor's degree, is currently a supervisor of the Company and the procurement director of Powerleader Computing, a subsidiary of the Company.

COMPANY SECRETARY

Mr. Dong Weiping, aged 57, an executive Director, president and company secretary of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's degree in computer systems engineering. Since 1982, Mr. Dong has served in a number of information technology companies. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the overall operation management of the Company. He has also been appointed as the company secretary of the Company by the Board on 6 July 2016.

SENIOR MANAGEMENT

Mr. Zhang Xu, aged 57, the Company's vice president and president of the technology research institute. He graduated with a bachelor's degree from the Faculty of Radio of the University of Science and Technology of China, and a master's degree from the Space Science and Applied Research Centre, the Chinese Academy of Sciences. He was the ASIC chip design manager of OPTI Computer Inc. in United States. He was a senior ASIC design engineer of Divio Inc. in the United States. He was a senior engineer of core switching network equipment of Nortel Networks in the United States. He was also R&D manager of enterprise-class network equipment of Nortel Networks in China. He was the chief engineer of the Supermicro Computer, Inc. in the United States. He worked for Inspur Electronic Information Industry Co., Ltd. (浪潮信息 (stock code: 000977)) as chief product director and deputy general manager of high-end servers R&D department.

Mr. Wang Li, aged 37, the vice president of the Company. He is the director of Shenzhen Powerleader Investment Holdings Limited. Mr. Wang Li obtained a bachelor's degree in engineering management from China South University in June 2003 and was granted the master's degree in finance in December 2005. He served as the manager of risk projects for Shenzhen Tianlue Credit Security Co., Ltd. (深圳市天略信用擔保有限公司), the general manager of Shenzhen Haofengde Investment & Consulting Co., Ltd. (深圳市浩豐德投資諮詢有限公司), and capital manager, capital supervisor of Powerleader Science & Technology Group Limited. He is currently the director of Powerleader Investment Holdings Company Limited and director of Zqgame.

REPORT OF THE SUPERVISORS

To all shareholders,

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

During the year, the Supervisory Committee had reviewed the operation and development plans of the Company in a prudent approach and provided reasonable suggestions to the Board. Moreover, the Supervisory Committee conducted stringent and effective supervision as to whether the significant policy decisions and specific decisions made by the management of the Company were in compliance with the relevant laws and regulations and the Company's Articles of Association and whether the interest of the shareholders had been protected.

The Supervisory Committee earnestly reviewed the Director's Report proposed to be submitted by the Board at the forthcoming annual general meeting and the financial statements of the Group for the year ended 31 December 2017 audited by ShineWing CPA (Special General Partnership). The Supervisory Committee is of the view that the financial report had been prepared in accordance with relevant accounting standards and gives a true and fair view on the financial position and operating results of the Group.

The Supervisory Committee considers that all members of the Board and other senior management of the Company had observed the principles of diligence, honesty and integrity, faithfully discharged their duties as required under the Company's Articles of Association and earnestly executed resolutions of the general meeting and the Board of Directors during the year. We did not find any abuse of authority or infringement of the interests of shareholders and employees of the Company by the Directors and senior management or non-compliance with relevant laws, regulations and the Company's Articles of Association.

In the coming year, the Supervisory Committee will continue to perform its supervisory duties with loyalty and diligence in accordance with the Company's Articles of Association and relevant requirements of the Listing Rules, so as to safeguard and protect the interests of the Company and shareholders from infringement.

By Order of the Supervisory Committee

Shu Ling

Chairman of the Supervisory Committee

Shenzhen, the PRC
29 March 2018

DIRECTORS' REPORT

The Directors hereby present the annual report and the audited financial statements for the year ended 31 December 2017.

PRINCIPAL BUSINESSES

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

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

Details of the principal businesses of the Company's subsidiaries are set out in note 8 to the financial statements.

RESULTS AND DISTRIBUTIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement on page 19. The Directors do not recommend the payment of final dividend for the year ended 31 December 2017 (final dividend payment for the year ended 31 December 2016: RMB0 per shares, in a total of RMB0).

DISTRIBUTABLE RESERVES

In accordance with the Company's Articles of Association, the net income available for distribution will be the lesser as determined in accordance with (i) PRC accounting standards and regulations and (ii) International Financial Reporting Standards or the accounting standards of the places where the Company issues its shares. The Directors determined that the Company's distributable reserves as at 31 December 2017 and 2016 were RMB760,428,585 and RMB564,022,315 respectively.

SHARE CAPITAL

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in VI.11 and VI.12 to the financial statements.

DIRECTORS' REPORT

DIRECTORS AND SUPERVISORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Ms. Zhang Yunxia
Mr. Dong Weiping

Non-executive Director:

Mr. Li Ruijie

Independent non-executive Directors:

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

Supervisors:

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including the executive, non-executive and independent non-executive Directors) has entered into a service contract with the Company, in each case, for a term of three years with effect from the date of their appointments, subject to termination pursuant to the right of termination as stipulated in the relevant service contract. The basic salary of each of the Directors for the year ended 31 December 2017 is set out as below:

Name of Director	RMB
Executive Directors:	
Ms. Zhang Yunxia	326,299.74
Mr. Dong Weiping	717,430.30
Mr. Ma Zhumao (Departed 6 December 2017)	267,791.27
Non-executive Director	
Mr. Li Ruijie	80,240.00
Mr. Sun Wei (Departed 29 August 2017)	15,240.00
Mr. Xu Yueming (Departed 6 December 2017)	60,960.00
Independent non-executive Directors:	
Mr. Chan Shiu Yuen Sammy	60,960.00
Dr. Guo Wanda	60,960.00
Mr. Jiang Baijun	60,960.00

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

Mr. Ma Zhumao has resigned as an executive Director and Vice President of the Company and has also ceased to be the Company's authorised representative with effect from 6 December 2017. Pursuant to the poll results of the extraordinary general meeting held on 29 August 2017, the removal of Mr. Sun Wei from his position as a non-executive Director of the Company was approved, with effect from 29 August 2017. Mr. Xu Yueming has resigned as a non-executive Director of the Company with effect from 6 December 2017.

DIRECTORS' REPORT

Each of the supervisors has entered into a service contract with the Company, in each case, for a term of three years with effect from the date of their appointment, subject to termination under certain circumstances as stipulated in the relevant service contract. The basic salary of each of the supervisors for the year ended 31 December 2017 is set out as below:

Name of Supervisor	RMB
Ms. Shu Ling	184,673.74
Ms. Li Xiaowei	160,847.14
Ms. Zhou Liqin	178,246.61

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

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

As at 31 December 2017, interests or short positions of the Directors, supervisors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions taken or deemed to have under such provisions of the SFO), or the interests or short positions required to be entered into the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the requirements in Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by the Directors were as follows:

Shares of the Company

Name of Director	Number of Domestic Shares held by a controlled corporation	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Mr. Li Ruijie	102,184,500	42.05%	56.07%
Ms. Zhang Yunxia	102,184,500	42.05%	56.07%
Mr. Sun Wei (Departed)	15,963,750	6.57%	8.76%
Mr. Ma Zhumao (Departed)	7,250,000	2.98%	3.98%

Note 1: Mr. Li is the husband of Ms. Zhang Yunxia. They held 102,184,500 Domestic Shares in aggregate through Shenzhen Powerleader Investment Holdings Company Limited, which is held by Mr. Li Ruijie and Ms. Zhang Yunxia as to 87.5% and 12.5% respectively

Note 2: Mr Sun Wei (departed on 29 August 2017) holds interests of 15,963,750 Domestic Shares through Harbin Shijilongxiang Technology Development Co., Ltd, as Mr. Sun Wei holds as to 71% of Harbin Shijilongxiang Technology Development Co., Ltd's issued capital at the last practicable date, he is deemed to be interested in all the domestic Shares held by Harbin Shijilongxiang Technology Development Co., Ltd.

Note 3: Mr. Ma Zhumao (departed on 6 December 2017) holds interests of 7,250,000 Domestic Shares through Shenzhen Jinbolitong Investment Partnership (limited partnership), as Mr. Ma Zhumao holds as to 60% of limited partnership interests of Shenzhen Jinbolitong Investment Partnership (limited partnership) at the last practicable dates, he is deemed to be interested in all the domestic Shares held by Shenzhen Jinbolitong Investment Partnership (limited partnership).

Save as disclosed above, as at 31 December 2017, none of the Directors, supervisors and chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions taken or deemed to have under such provisions of the SFO), or any interest or short positions required to be entered into the register required to be kept pursuant to section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

SHARE OPTION SCHEME

As of 31 December 2017, the Company has neither adopted any share option scheme nor granted any option.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

During the year, neither the Company nor any of its subsidiaries was a party to any arrangements to allow the Directors or the supervisors of the Company to acquire benefits by the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate, and none of the Directors and the supervisors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS

Pursuant to the agency framework agreement referred in the section of "Continuing Connected Transactions of the Group" below, Ms. Zhang Yunxia and Mr. Li Ruijie have a material interest in the contract.

Save as the matters above, no contracts of significance, to which the Company or its subsidiaries was a party and in which any Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2017, so far as known to the Directors, no other interests or short positions of substantial shareholders of the Company and other persons in shares, underlying shares or debentures, which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required to be entered into the register referred to in section 336 of the SFO.

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

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

CONTINUING CONNECTED TRANSACTIONS

(i) Import agency framework agreement with G-Speed

G-Speed, a limited liability company established under the laws of the PRC, is owned by Powerleader Investment Holding Company Limited* (深圳市宝德投资控股有限公司) (the "Powerleader Investment"), a substantial shareholder of the Company, as to 50%, and is thus deemed as an associate of Powerleader Investment and a connected person of the Company. In accordance with the Rule 20.69 of the GEM Listing Rules, details of the continuing connected transaction between the Company and G-Speed are set out below:

On 21 November 2016, the Company entered into the Import Agency Framework Agreement with G-Speed, in relation to the engagement of G-Speed as the import agent to provide the Company services for the import of the materials from suppliers outside the PRC (including Hong Kong) from the period commencing from the date of the Import Agency Framework Agreement to 31 October 2019.

DIRECTORS' REPORT

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

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

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

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

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

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

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

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

The auditor of the Company has issued a letter to us to confirm that, in respect of the aforementioned agreement, (i) nothing has come to its attention that causes us to believe that any matter in relation to such transactions has not been approved by the Board; (ii) nothing has come to its attention that causes us to believe that the material aspects of such transactions are not in line with the pricing policy of the Group; (iii) nothing has come to its attention that causes us to believe that the Company fails to comply with the agreements on relevant transactions in all aspects of such transactions; (iv) the Auditors noted that in 2017, the actual amount was RMB5,708,830.56, exceeding the annual cap of 2017 by RMB1,708,830.56.

(ii) Tenancy agreements with Baoteng Internet

The Company entered into the Agreement with Zqgame on 1 September 2016 for the disposal of entire equity interests of Baoteng Internet to Zqgame. Completion took place on 29 June 2017.

Upon Completion, Baoteng Internet became a subsidiary of Zqgame, and the Company ceased to have interest in Baoteng Internet apart from an indirect interest through its shareholding in Zqgame. Powerleader Investment, the controlling shareholder of the Company, holds approximately 27.86% of the total issued shares of Zqgame, and the Company holds approximately 15.24% of the total issued shares of Zqgame. Zqgame is a 30%-controlled company held by Powerleader Investment. As Powerleader Investment being a substantial shareholder of the Company is a connected person of the Company, Zqgame being an associate of Powerleader Investment is also a connected person of the Company under Rule 20.07(4) under the GEM Listing Rules. Thus, transactions between the Group and Baoteng Internet being a subsidiary of Zqgame constitute connected transactions of the Company.

DIRECTORS' REPORT

The Company leases certain premises at Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, the PRC to Baoteng Internet. The Tenancy Agreements for the aforesaid continuing transactions entered into by the Company and Baoteng Internet for a fixed period with fixed terms have become continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules from Completion.

Principal terms:

Baoteng Internet IDC Phase 1 Tenancy Agreement

Date: 1 July 2016

Parties: the Company as landlord Baoteng Internet as tenant

Premises: 1/F to 4/F, Internet Data Centre Phase 1, No. 3 Guangyi Road, Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, PRC having a gross floor area of 6,156 sq.m. for office use and IDC Business carried out by Baoteng Internet

Term: Three years commencing on 1 July 2016 and ending on 30 June 2019

Rent: Rent (exclusive of management fee, water supply charges, electricity charges, internet charges and all other public utilities charges, which shall be borne by the tenant during the term of the tenancy) payable on a monthly basis during the term is RMB191,880

Baoteng Internet IDC Phase 2 Tenancy Agreement

Date: 1 July 2016

Parties: the Company as landlord Baoteng Internet as tenant

Premises: 1/F to 3/F, Internet Data Centre Phase 2, No. 3 Guangyi Road, Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, PRC having a gross floor area of 4,508.45 sq.m. for office use and the IDC Business carried out by Baoteng Internet

Term: Three years commencing on 1 July 2016 and ending on 30 June 2019

Rent: Rent (exclusive of management fee, water supply charges, electricity charges, internet charges and all other public utilities charges, which shall be borne by the tenant during the term of the tenancy) payable on a monthly basis during the term is RMB139,900

Baoteng Internet Registered Office Tenancy Agreement

Date: 1 July 2016

Parties: the Company as landlord Baoteng Internet as tenant

Premises: Room 401, 4/F, Powerleader Technology Research and Development Building, No. 3 Guangyi Road, Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, PRC as the registered office address of Baoteng Internet

Term: Three years commencing on 1 July 2016 and ending on 30 June 2019

Rent: Rent (inclusive of management fee, air-conditioning charges, water supply charges, electricity charges and all other public utilities charges) payable on a monthly basis during the term is RMB2,857.20

The tenancy agreements are on normal commercial terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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

The auditor of the Company has issued a letter to us to confirm that, in respect of the aforementioned agreement, (i) nothing has come to its attention that causes us to believe that any matter in relation to such transactions has not been approved by the Board; (ii) nothing has come to its attention that causes us to believe that the material aspects of such transactions are not in line with the pricing policy of the Group; (iii) nothing has come to its attention that causes us to believe that the Company fails to comply with the agreements on relevant transactions in all aspects of such transactions; (iv) nothing has come to its attention that causes us to believe that the amount of such transactions exceeds the annual caps as disclosed in the announcement dated 22 August 2017.

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

DIRECTORS' REPORT

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in note XI to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major customers and suppliers are as follows:

Sales

— the largest customer	10.18%
— five largest customers in aggregate	29.11%

Purchases

— the largest supplier	45.58%
— five largest suppliers in aggregate	65.18%

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

COMPETING BUSINESS AND CONFLICT OF INTEREST

None of the Directors, initial management shareholders and their respective associates (as defined in the GEM Listing Rules) held any interest in any business which competes or may compete with the Group or had any other conflict of interest with the Group as at 31 December 2017.

CODE OF CORPORATE GOVERNANCE PRACTICE

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

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to act as an important link between the Board and the Group's auditor for issues fall under the scope of audit of the Group and (ii) to review the effectiveness of the external audit and of the internal control and risk evaluation of the Company. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2016, the quarterly reports of the first and third quarters of 2017 as well as the interim report of 2017. The Committee has also reviewed the annual results for the year ended 31 December 2017 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDITOR

ShineWing Certified Public Accountants (信永中和會計師事務所(特殊普通合夥)) was approved to act as the auditor of the Company at the annual general meeting convened on 31 May 2017, such appointment was effective from 31 May 2017 and it will hold the office until the conclusion of the next annual general meeting of the Company.

On behalf of the Board

Zhang Yunxia

Chairman

Shenzhen, the PRC
29 March 2018

CORPORATE GOVERNANCE REPORT

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has formulated a model code regarding to the securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed their compliance with such model code and the requirements under standard of dealings and the model code for securities transactions by the Directors throughout the year ended 31 December 2017 upon specific enquiries.

THE BOARD AND BOARD MEETING

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

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

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

The Board held 9 Board meetings during the year under review. Details of the attendance of the Directors are as set out in the table below:

Director	Attendance
Executive Directors	
Ms. Zhang Yunxia (<i>Chairman</i>)	9/9
Mr. Dong Weiping (<i>Chief Executive Officer</i>)	9/9
Non-executive Director	
Mr. Li Ruijie (<i>Vice Chairman</i>)	9/8
Independent Non-executive Directors	
Mr. Chan Shiu Yuen Sammy	9/9
Dr. Guo Wanda	9/9
Mr. Jiang Baijun	9/9

Except for the husband and wife relationship between Ms. Zhang Yunxia, the chairman of the Board of the Company and an executive Director, and Mr. Li Ruijie, the vice chairman of the Board and a non-executive Director, there is no other family or material relationship among members of the Board.

CORPORATE GOVERNANCE REPORT

Apart from the regular Board meetings during the year, Board meetings are held when a Board-level decision on a particular matter is required. The Directors receive detailed agenda and minutes of committee meetings prior to each Board meeting.

Continuing Professional Development of Directors

As of 31 December 2017, the Directors of the Company attended seminars and training programs organized by various professional institutions and bodies. Reading materials on, amongst others, the latest updates of business, operation, corporate control, legal and regulatory matters had also been provided to all Directors for their reference and study.

Participation in continuing professional development activities

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

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

LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has maintained liability insurance policies for its Directors, supervisors and senior management in March 2017, and those policies are suitable for its Directors, supervisors and senior management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Ms. Zhang Yunxia is the chairman of the Board and an executive Director and Mr. Dong Weiping is the chief executive officer of the Company and an executive Director.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's articles of association set out a formal procedure for the appointment of new Directors to the Board. Any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall retire and be eligible for re-election at the next general meeting after appointment.

TERM OF APPOINTMENT OF EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE REPORT

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTOR

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

TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

GENERAL MEETINGS

The general meetings of the Company possess the highest authority. A total of 5 general meetings were convened in 2017. On 31 May 2017, the Company convened the annual general meeting, at which the Director's Report, the Report of the Supervisors, the financial statements for the year 2016 and the reappointment of ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Company for the year ended 31 December 2017 were approved and passed by way of ordinary resolutions, and the Directors have been authorised to determine its remuneration.

AUDIT COMMITTEE

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

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

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

The audit committee had reviewed all of the Group's unaudited quarterly and interim results for the year ended 31 December 2017 and audited annual results of 2017, and are of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements, and that adequate disclosure have been made.

REMUNERATION AND APPRAISAL COMMITTEE

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

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

CORPORATE GOVERNANCE REPORT

During the period under review, a meeting of the remuneration committee was held on 30 March 2017. Details of the attendance record of the remuneration committee meeting are set out as follows:

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

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

NOMINATION COMMITTEE

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

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

During the period under review, a meeting of the nomination committee was held on 20 March 2017. Details of the attendance of the nomination committee meeting are as follows:

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

AUDITOR'S REMUNERATION

During the year under review, the remuneration to the external auditor of the Company was RMB1,188,520.67.

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company encourages the shareholders to attend the general meetings of the Company. The notice of general meeting is issued 45 days prior to the holding of the meeting. According to the requirements of the articles of association, shareholders holding ten per cent or more of the issued and outstanding voting shares of the Company are entitled to convene an extraordinary general meeting by submitting written request to the Board. Shareholders have the right to supervise the business activities of the Company, and make recommendations or inquiries in relation thereto.

When requesting for review of inquiries or access to information, shareholders should submit a prior written notice to the Company in this regard, the Company shall provide such information as requested by the shareholders as soon as possible. Inquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong at Room 102, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

CORPORATE GOVERNANCE REPORT

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

The Company has set up a dedicated department to deal with investor relations. It strictly complies with the relevant requirements including the "Shareholders Communication Policy", so as to ensure that shareholders and investors can have access to the relevant information on the Company promptly, equally and timely. In this manner, we ensure that shareholders can have a better understanding of the Company, while enabling shareholders to exercise their rights in an informed way, thus effectively ensuring that the Company establishes good communications with shareholders and investors.

The Company's website (<http://www.powerleader.com.cn>) offers a communication channel between the Company and shareholders and potential investors of the Company. Apart from the disclosure of all necessary information to shareholders in compliance with the Listing Rules of the Stock Exchange, updates on the Company's business development and operation are also available on the Company's website.

ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2017. The Directors' responsibility for the preparation of the financial statements and the auditor's responsibility are set out in the Auditor's Report.

INTERNAL CONTROL

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is the second Environmental, Social and Governance Report (the “ESG Report”) prepared by Powerleader Science & Technology Group Limited (the “Company”) and its subsidiaries (the “Group”, “We”, “Our” or “Us”) to present the environmental, social and governance issues of all subsidiaries under the Group pursuant to Appendix 20 “Environmental, Social and Governance Reporting Guide” of the GEM Listing Rules issued by the Stock Exchange of Hong Kong.

REPORTING PERIOD

This Report covers the period from 1 January 2017 to 31 December 2017 (the “Reporting Period”).

STAKEHOLDER PARTICIPATION

The Group values its stakeholders and their views on the Group’s business and environmental, social and governance matters. To understand and respond to the concerns of its stakeholders, the Group communicates with its major stakeholders, including its staff, investors, customers, suppliers, government agencies and local organisations, through various channels such as conferences, digital platforms, and public events. In formulating business strategies and environmental, social and governance policies, the Group takes into account stakeholders’ expectations, enabling the Group to continuously improve its performance through mutual cooperation, creating greater value for the society.

ENVIRONMENT

The Group is mainly engaged in the Internet cloud computing industry that is an asset-light industry without contamination emissions such as effluent or exhaust. The Group formulates the Company’s environmental protection management rules with reference to the relevant laws and regulations, as it strives to reduce environmental pollution and wastage of resources. There was no non-compliance with environmental protection laws and regulations during the Reporting Period.

WASTE MANAGEMENT

The Group does not generate enormous amount of waste due to the nature of its business. The small amount of waste arising during the routine business process and operation is strictly controlled by the Group.

- I. Waste is recycled and classified into recyclable, non-recyclable and hazardous wastes. Recyclable substances will be reused. Toxic and hazardous substances are disposed of in accordance with relevant management measures;
- II. Self-owned vehicles of the Group run on high-quality fuels to reduce exhaust emissions, and are regularly maintained to ensure that the vehicles are in operational condition and the generation of exhaust is controlled. Meanwhile, employees are encouraged to take public transportation in their commute for environmentally friendly travel;
- III. A number of green plants are planted in the offices to absorb carbon dioxide and other hazardous airborne substances and purify the air.

EFFICIENT USE OF RESOURCES

Electricity is the main form of energy consumed by the Group. We are always committed to the development of energy-saving products. The Company’s servers and storage products have been certified as energy-saving products, while the Shenzhen Guanlan data centre has also been accredited with the four-star certificate as a green energy-saving data centre demonstration project.

Employees are required to utilise sunlight instead of lamplight as much as possible during ordinary operations. Air conditioners of the Company are maintained at the temperature of above 26 °C in summer and are not operated in winter. Air conditioners and lights in vacant rooms must be turned off. We also display posters in main office areas to raise the environmental awareness among employees. We will timely monitor the consumption of paper, power and water supply of each department and inform relevant departments of any abnormality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company has developed internal governance measures in accordance with the corporate governance practice code to ensure that the Company conducts operations smoothly and maximize the interests of the investors under a transparent and rigorous management structure.

The Company has reviewed its internal governance measures in accordance with the provisions of the code on corporate governance practices during the Reporting Period. From time to time, the management holds meetings to discuss whether such internal governance measures are effective and are complied with, and to make a timely report of the implementation of such governance measures to the Board of Directors. There was no breach of the corporate governance rules during the Reporting Period.

EMPLOYEES**Basic information of employees as of 31 December 2017**

Age	Number	Proportion
25 and below	238	23.65%
26–35	555	55.17%
36–45	176	17.50%
46 and above	37	3.68%
Total	1,006	100.00%

Education	Number	Proportion
Master's degree	22	2.19%
Bachelor's degree	543	53.98%
College	229	22.76%
Technical secondary school and below	212	21.07%
Total	1,006	100.00%

Gender	Number	Proportion
Male	692	68.79%
Female	314	31.21%
Total	1,006	100.00%

WORKING HOURS

The Group implements a five-day, eight-hour working system and discourages employees from working overtime. If required by special conditions, these employees who work overtime must be entitled to an allowance or time-off in lieu.

EMPLOYEE SECURITY AND BENEFITS

In strict compliance with relevant requirements such as the Labour Law of the People's Republic of China, the Company upholds the principle of equal employment, provides equal pay for equal work, treats employees of different nationalities, gender, religious or cultural backgrounds fairly and is opposed to discrimination. The Group had a total of 1,006 employees during the Reporting Period. The signing rate of employment contracts was 100%.

We maintain pension, medical, unemployment, work-related injury and maternity insurances as well as housing provident fund for every employee to safeguard employees' lawful benefits. The purchase rate of social security insurance was 100% during the Reporting Period.

DEVELOPMENT AND TRAINING

The Group attaches importance to quality cultivation of employees. Apart from the one-day induction training required for every new staff, the Company also organises employees from time to time for attending internal skills training and external industrial exchanges to improve their learning ability and professional knowledge, ensuring that they are updated with the latest development of the industry at the fastest speed. Meanwhile, online education is introduced to diversify the mode of training, which greatly improves the learning initiative and enthusiasm of employees.



EQUAL OPPORTUNITY

In addition to employee training, the Company also provides each employee with equal opportunity for promotion and employee incentive measures with market competitiveness in order to effectively mobilise employees in work, unleashing their individual talents to contribute their efforts to the sustainable development of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYEE ACTIVITIES

The Company values employee relationship management and strives to create a good working and social environment for the employees. We organise employee activities on a regular basis to enhance communication and exchange among employees, cultivate the employees' sense of belonging and strengthen team cohesion.



HEALTH AND SAFETY

The Group highly emphasises health and safety of the workplace and strictly abides by the Law of the People's Republic of China on Work Safety in putting safety first. We conduct regular checks on production and office equipment to timely eliminate safety risks. At the same time, fire drills are held from time to time to ensure that employees master the process of response in case of fire and measures of response in case of emergencies. The Group maintains five basic insurances including medical, work-related injury insurances, etc. for each employee to ensure that some help will be offered upon occurrence of accidents.

ANTI-CHILD AND FORCED LABOUR

The Group has formulated human resource recruitment management measures in strict accordance with the Labour Law of the People's Republic of China. Violation of laws and regulations such as the employment of child labour or forced labour is strictly prohibited. The Company has not found any recruitment of child or forced labour during the Reporting Period.

SUPPLY CHAIN MANAGEMENT

The Group has developed a management system that comprehensively assesses new and existing suppliers in order to effectively manage the supply chain. In addition to compliance with relevant laws and regulations, the product quality, time of delivery, product price and pre-sale/after-sale service of the suppliers must be strictly evaluated to select a qualified supplier for provision of high-quality products and services.

PRODUCT QUALITY

The Group adheres to the “customer first, forge ahead” business philosophy and upholds the “customer first” principle to provide personalised customer service for customers. We have well-established sales services, such as provisions of remote technical support and product installation and commissioning, as well as after-sale replacement and other diversified services. In addition, we will continue to increase R&D investment so as to provide customers with better products and services.

ANTI-CORRUPTION

Integrity is the top priority of the Group’s corporate culture. We would not tolerate any corruption, bribery, blackmail, money laundering or other deceptive practices. The management practices of the Company provide clearly the anti-corruption management measures, which shall be observed by the employees at all times.

We have not found any major offense with respect to violation against anti-corruption laws and regulations during the Reporting Period.

SOCIAL RESPONSIBILITY

The Group always keeps in mind the social responsibility we have been bearing since our establishment in 1997. We know well that only enterprises with a sense of social responsibility will bring more long-term profits to stakeholders and create values for the society. Corporate social responsibility has become an important component of the corporate culture of the Group.

We care about social development and persons in need of help, and always participate in the various educational donation activities and other charitable activities. At the same time, we encourage our employees to actively participate in community volunteer services, and call on our employees to serve and repay the society. We always fulfil our promises to contribute to the social development.

AUDITOR'S REPORT



信永中和会计师事务所

ShineWing
certified public accountants

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, Chaoyangmen Beidajie,
Dongcheng District, Beijing,
100027, P.R.China

联系电话: +86(010)6554 2288
telephone: +86(010)6554 2288

传真: +86(010)6554 7190
facsimile: +86(010)6554 7190

AUDITOR'S REPORT

To the Shareholders of Powerleader Science & Technology Group Limited

1. AUDIT OPINION

We have audited the accompany financial statements of Powerleader Science & Technology Group Limited (hereinafter referred to as "Powerleader Science & Technology"), which comprise the consolidated and parent company balance sheets as at 31 December 2017, and the consolidated and parent company income statements for the year 2017, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in shareholders' equity for the year then ended, and the notes to the related financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and parent company's financial position of Powerleader Science & Technology as at 31 December 2017, and its financial performance and cash flows for the year 2017 in accordance with the requirements of Accounting Standards for Business Enterprises ("ASBE").

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Powerleader Science & Technology in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

AUDITOR'S REPORT

3. KEY AUDIT MATTER

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition

Key audit matter	Measures in audit
<p>As set out in Notes IV.24 and VI.37 to the consolidated financial statements of Powerleader Science & Technology, the principal income of Powerleader Science & Technology amounted to RMB3,818,881,906.09, which was mainly generated from the selling of cloud infrastructure and cloud mobile products.</p> <p>In view of revenue being one of the key performance indicators of Powerleader Science & Technology, revenue recognition may involve the management's control of inherent risks in order to achieve a specific goal or expectation. Accordingly, we considered revenue recognition to be a key audit matter.</p>	<p>Our key audit procedures conducted are as follows:</p> <ol style="list-style-type: none"> 1) We understood and assessed the design and operation effectiveness of the internal control system related to revenue recognition of the management; 2) We conducted analytical review procedures on revenue, and analysed the reasonableness of the changes in sales income and gross profit margin; 3) We conducted random checks on the supporting documents related to revenue recognition, including sales contracts, purchase orders, outbound orders, acknowledgement certificates of outbounding/inspection (delivery receipts), to examine the validity of income; 4) We verified inspection certificates of customers and other supporting documents, focusing on sales income recognised around the balance sheet date, and examined the reasons for subsequent sales return to assess whether sales income has been accounted for in the appropriate accounting period; 5) We conducted external confirmation procedures on current revenue and balance as at the end of the year of important and new customers.

AUDITOR'S REPORT

2. Provision for bad debt receivables

Key audit matters	Measures in audit
<p>As set out in Note VI.3 to the consolidated financial statement of Powerleader Science & Technology, as at 31 December 2017, the Company's balance of accounts receivable was RMB921,035,122.20, provision for bad debts was RMB49,249,951.13 and the net amount was RMB871,785,171.07, a relatively high carrying value representing 26.81% of total assets in the consolidated statements.</p> <p>Since the balance of accounts receivable is material and the provision for bad debt in accounts receivable involved judgement and estimation by the management, we considered the provision for bad debt in accounts receivable to be a key audit matter.</p>	<p>Our key audit procedures conducted are as follows:</p> <ol style="list-style-type: none"> 1) We understood and conducted tests on the internal review, assessment and recognition procedures for the provision for bad debt receivables of the management; we evaluated the reasonableness of the objective evidence and data for distinguishing bad debts; 2) We reviewed the process of providing for bad debt receivables, and made judgments on the reasonableness of the accounting policies used for the provision of bad debt receivables; 3) We analysed and compared the reasonableness and consistency of the provision for bad debt receivables of the year and prior years; 4) We selected samples to examine the accuracy of the preparation of the analysis of bad debt receivables of the management; 5) We evaluated the reasonableness of the provision for bad debt receivables of the management, considering the subsequent level of recovery.

3. Investment gain from disposal of equity interest in Baoteng Internet

Key audit matters	Measures in audit
<p>As set out in Note VII.2, Powerleader Science & Technology has completed the transferral of equity interest in Baoteng Internet, its wholly-owned subsidiary, to Zqgame, a company under common control, in June 2017. Investment gain of RMB313,003,257.50 was recognised.</p> <p>This event had material impact on net profit in the current period. Accordingly, we considered the event to be a key audit matter.</p>	<p>Our key audit procedures conducted are as follows:</p> <ol style="list-style-type: none"> 1) We understood and assessed the relevant internal control procedures; 2) By examining relevant documents such as the Equity Transfer Agreement, the resolutions of Board meetings and general meetings, and the procedures of the transferral of property rights, we examined the compliancy and effectiveness of equity transfer; 3) Based on the requirements of Accounting Standards for Enterprises, we examined the accuracy of the company's judgement of the timing of disposal, and the accuracy of accounting; 4) We considered whether the disclosure related to the disposal transaction in the financial statements complied with the requirements of corporate accounting standards.

AUDITOR'S REPORT

4. OTHER INFORMATION

Management of the Powerleader Science & Technology (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises the information included in the 2017 annual report of Powerleader Science & Technology, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have already done, we should report the facts if we determine that there is a material misstatement of other information. In this respect, we have no need to report any matter.

5. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the ASBE, and for the design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Powerleader Science & Technology's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate Powerleader Science & Technology or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Powerleader Science & Technology's financial reporting process.

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

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

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

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

AUDITOR'S REPORT

- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Powerleader Science & Technology's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Powerleader Science & Technology to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Powerleader Science & Technology to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Shinewing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant (engagement partner):

Guo Junlong

Chinese Certified Public Accountant:

Qiu Lequn

Beijing, the PRC

29 March 2018

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Current Assets:			
Cash and cash equivalents	VI. 1	327,110,899.44	349,605,797.56
Settlement provision			
Funds lent			
Financial assets at fair value through profit or loss for the current period		44,935.41	
Derivative financial assets (if significant)			
Notes receivable	VI. 2	19,317,780.05	6,208,051.00
Accounts receivable	VI. 3	871,785,171.07	917,692,362.82
Prepayments	VI. 4	10,569,389.53	18,513,077.28
Premiums receivable			
Reinsurance account receivable			
Reinsurance contract reserves receivable			
Interest receivables		—	
Dividend receivables	VI. 5	795,645.65	795,645.65
Other receivables	VI. 6	667,685,452.22	356,540,618.02
Redemptory monetary capital for sale			
Inventories	VI. 7	483,969,808.40	351,976,260.12
Assets classified as held for sale		—	
Non-current assets due within 1 year		—	
Other current assets	VI. 8	25,789,993.13	22,322,469.37
Total current assets		2,407,069,074.90	2,023,654,281.82
Non-current assets:			
Loans and advances			
Available-for-sale financial assets	VI. 9	15,204,904.00	17,600,000.00
Held-to-maturity investment		—	
Long-term accounts receivable		—	
Long-term equity investment	VI. 10	131,924,627.85	162,517,683.03
Investment Properties	VI. 11	206,419,308.01	81,784,094.01
Fixed assets	VI. 12	299,487,005.22	431,096,862.98
Construction in progress	VI. 13	174,997,923.50	11,863,516.35
Construction material		—	
Fixed assets disposal			
Productive biological assets			
Oil and gas assets			
Intangible assets	VI. 14	6,061,274.97	92,892,997.09
Development expenditure	VI. 15	—	21,214,870.13
Goodwill		—	
Long-term prepayments	VI. 16	1,707,743.48	1,719,416.63
Deferred income tax assets	VI. 17	8,564,513.39	4,310,377.64
Other non-current assets		—	
Total non-current assets		844,367,300.42	824,999,817.86
Total assets		3,251,436,375.32	2,848,654,099.68

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Current liabilities:			
Short-term loans	VI. 18	1,170,519,452.62	1,171,951,441.31
Borrowings from the Central Bank			
Deposits and interbank deposits			
Funds borrowed			
Financial liabilities at fair value through profit or loss for the current period		—	
Derivative financial liabilities (if significant)			
Notes payable	VI. 19	131,000,000.00	130,000,000.00
Accounts payable	VI. 20	378,278,483.13	180,757,074.34
Receipts in advance	VI. 21	68,051,656.32	44,725,023.84
Financial assets sold for repurchase			
Fees and commissions payable			
Employee remuneration payables	VI. 22	7,993,073.80	8,569,436.72
Tax and levy payables	VI. 23	65,086,910.13	70,573,407.42
Interest payables	VI. 24	1,146,558.33	202,048.61
Dividend payables		—	
Other payables	VI. 25	39,357,411.90	140,114,892.22
Reinsurance account payable			
Insurance contract reserves			
Securities dealing brokerage fees			
Securities underwriting brokerage fees			
Liabilities classified as held for sale		—	
Non-current liabilities repayable within one year	VI. 26	47,626,399.63	55,494,449.13
Other current liabilities	VI. 27	6,403,932.87	7,506,448.12
Total current liabilities		1,915,463,878.73	1,809,894,221.71
Non-current liabilities:			
Long-term loans	VI. 28	43,000,000.00	79,000,000.00
Bond payables		—	
Including: Preference shares			
Perpetual bonds			
Long-term payables	VI. 29	—	11,626,399.54
Long-term employee remuneration payables			
Special payables		—	
Provisions		—	
Deferred income	VI. 30	31,008,125.00	30,780,000.00
Deferred income tax liabilities		—	
Other non-current liabilities		—	
Total non-current liabilities		74,008,125.00	121,406,399.54
Total Liabilities		1,989,472,003.73	1,931,300,621.25

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Owners' equity:			
Capital	VI. 31	243,000,000.00	243,000,000.00
Other equity instrument Including: Preference share Perpetual bonds			
Capital reserves	VI. 32	57,958,529.72	36,229,302.37
Less: Treasury shares		—	
Other comprehensive income	VI. 33	130,795,486.64	36,479,142.32
Special reserves			
Surplus reserves	VI. 34	35,125,156.64	37,626,042.30
General Risk Reserves			
Undistributed profits	VI. 35	760,428,585.47	564,022,314.72
Total equity attributable to shareholders of the Company		1,227,307,758.47	917,356,801.71
Minority interests	VI. 36	34,656,613.12	(3,323.28)
Total shareholders' equity		1,261,964,371.59	917,353,478.43
Total liabilities and shareholders' equity		3,251,436,375.32	2,848,654,099.68

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

BALANCE SHEET OF THE COMPANY

As at 31 December 2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Cash and cash equivalents			
Current Assets:		211,892,565.58	126,821,497.02
Financial assets at fair value through profit or loss for the current period		44,935.41	
Derivative financial assets (if significant)			
Notes receivable		4,979,702.05	227,030.00
Accounts receivable	XVII. 1	120,328,641.20	209,329,487.22
Prepayments		1,929,140.53	2,631,564.24
Interest receivables		—	
Dividend receivables		795,645.65	795,645.65
Other receivables	XVII. 2	1,924,453,511.40	1,249,452,376.41
Inventories		15,445,797.92	16,215,356.72
Assets classified as held for sale		—	
Non-current assets due within 1 year		—	
Other current assets		—	
Total current assets		2,279,869,939.74	1,605,472,957.26
Non-current assets:			
Available-for-sale financial assets		13,300,000.00	11,500,000.00
Held-to-maturity investment		—	
Long-term accounts receivable		—	
Long-term equity investment	XVII. 3	224,859,770.33	272,602,825.51
Investment Properties		86,960,020.01	81,784,094.01
Fixed assets		183,917,193.35	312,860,646.44
Construction in progress		174,997,923.50	11,863,516.35
Construction material		—	
Fixed assets disposal		—	
Productive biological assets		—	
Oil and gas assets		—	
Intangible assets		5,740,813.93	15,450,597.19
Development expenditure		—	
Goodwill		—	
Long-term prepayments		772,929.03	1,512,081.04
Deferred income tax assets		—	
Other non-current assets		—	
Total non-current assets		690,548,650.15	707,573,760.54
Total assets		2,970,418,589.89	2,313,046,717.80

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

BALANCE SHEET OF THE COMPANY

As at 31 December 2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Current liabilities:			
Short-term loans		1,028,542,987.86	997,213,930.83
Financial liabilities at fair value through profit or loss for the current period		—	
Derivative financial liabilities (if significant)			
Notes payable		131,000,000.00	130,000,000.00
Accounts payable		225,142,862.93	364,501,848.97
Receipts in advance		14,831,895.44	20,108,410.09
Employee remuneration payables		1,014,256.44	522,044.48
Tax and levy payables		33,648,852.63	26,967,871.90
Interest payables		1,146,558.33	202,048.61
Dividend payables		—	
Other payables		688,776,297.48	162,269,166.25
Liabilities classified as held for sale		—	
Non-current liabilities repayable within one year		47,626,399.63	55,494,449.13
Other current liabilities		4,432,684.37	5,274,780.39
Total current liabilities		2,176,162,795.11	1,762,554,550.65
Non-current liabilities:			
Long-term loans		43,000,000.00	79,000,000.00
Bond payables		—	
Including: Preference shares			
Perpetual bonds			
Long-term payables		—	11,626,399.54
Long-term employee remuneration payables		—	
Special payables		—	
Provisions		—	
Deferred income		21,508,125.00	24,080,000.00
Deferred income tax liabilities		—	
Other non-current liabilities		—	
Total non-current liabilities		64,508,125.00	114,706,399.54
Total Liabilities		2,240,670,920.11	1,877,260,950.19
Owners' equity:			
Capital		243,000,000.00	243,000,000.00
Other equity instrument			
Including: Preference share			
Perpetual bonds			
Capital reserves		125,625,000.00	32,373,503.04
Less: Treasury shares		—	
Other comprehensive income		36,942,358.82	36,479,142.32
Special reserves			
Surplus reserves		35,125,156.64	37,626,042.30
Undistributed profits		289,055,154.32	86,307,079.95
Total shareholders' equity		729,747,669.78	435,785,767.61
Total liabilities and shareholders' equity		2,970,418,589.89	2,313,046,717.80,

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED INCOME STATEMENT

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Total revenue	VI. 37	3,818,881,906.09	3,434,030,211.28
Including: revenue	VI. 37	3,818,881,906.09	3,434,030,211.28
Interest expenses			
Earned premium			
Fees and commissions income			
II. Total operating cost		3,925,825,052.03	3,398,128,759.69
Including: Operating cost	VI. 37	3,500,190,592.33	3,118,928,803.32
Interest expenses			
Fees and commissions expenses			
Refunded premium			
Net claims paid			
Net withdrawal on insurance contract reserves			
Policy dividend expenses			
Reinsurance fees			
Business taxes and surcharges	VI. 38	8,248,962.02	3,676,526.16
Sales expenses	VI. 39	88,501,312.71	81,041,851.62
Administrative expenses	VI. 40	180,071,006.05	89,628,802.62
Finance costs	VI. 41	62,417,218.57	72,430,089.80
Impairment loss of assets	VI. 42	86,395,960.35	32,422,686.17
Add: Gain on changes in fair value (loss is denoted by “()”)	VI. 43	5,713,805.00	1,575,855.00
Gain on investment (loss is denoted by “()”)	VI. 44	315,372,507.68	3,103,981.67
Including: Gain on investment to associates and joint ventures	VI. 44	6,602,992.04	3,103,981.67
Gain on foreign currency exchange (loss is denoted by “()”)		—	
Gain on disposal of assets (loss is denoted by “()”)	VI. 45	26,391.12	(27,514.23)
Other gains	VI. 46	5,440,447.67	—
III. Operating profit (loss is denoted by “()”)		219,610,005.53	40,553,774.03
Add: Non-operating income	VI. 47	12,575,070.75	13,786,637.99
Less: Non-operating expenses	VI. 48	767,308.25	1,006,307.37
IV. Total Profit (total loss is denoted by “()”)		231,417,768.03	53,334,104.65
Less: Income tax expenses	VI. 49	12,159,740.05	18,403,440.78
V. Net profit (net loss is denoted by “()”)		219,258,027.98	34,930,663.87
Net profit attributable to shareholders of the Company		218,933,834.57	34,931,505.59
Profit or loss attributable to minority interests		324,193.41	(841.72)
(1) Net profit from continuing operations (net loss is denoted by “()”)			
(2) Net profit from discontinued operations (Net loss is denoted by “()”)			

CONSOLIDATED INCOME STATEMENT

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
VI. Other comprehensive income net of tax		94,316,344.32	36,628,596.04
Other comprehensive income net of tax attributable to owners of the company		94,316,344.32	36,628,596.04
(I) Other comprehensive income which will not be reclassified to profit or loss		—	—
1. Remeasurement of changes in net liabilities or net assets of defined benefit schemes			
2. Share of other comprehensive income of investee that will not be reclassified to profit or loss under equity method			
(II) Other comprehensive income which will be reclassified to profit or loss	VI. 33	94,316,344.32	36,628,596.04
1. Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method	VI. 33	463,216.50	(425,865.15)
2. Gain or loss on changes in fair value of available-for-sale financial assets			
3. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets			
4. Effective portion in gain or loss on cash flow hedging			
5. Exchange difference arising from translation of foreign currency denominated financial statements			
6. Others		93,853,127.82	37,054,461.19
Other comprehensive income attributable to minority interest net of tax			
VII. Total comprehensive income		313,574,372.30	71,559,259.91
Total comprehensive income attributable to shareholders of the Company		313,250,178.89	71,560,101.63
Total comprehensive income attributable to minority interests		324,193.41	(841.72)
VIII. Earnings per share:			
(I) Basic earnings per share		0.9010	0.1438
(II) Diluted earnings per share		(0.2647)	0.0988

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

INCOME STATEMENT OF THE COMPANY

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Total revenue	XVII. 4	373,750,186.06	486,131,632.26
Less: Operating cost	XVII. 4	350,507,478.56	462,569,492.19
Business taxes and surcharges		2,061,833.91	698,850.13
Sales expenses		488,787.00	504,433.34
Administrative expenses		38,364,589.83	40,268,339.39
Finance costs		58,782,009.36	43,644,250.26
Impairment loss of assets		24,027,232.20	22,573,945.15
Add: Gain on changes in fair value (loss is denoted by “()”)		5,175,926.00	1,575,855.00
Gain on investment (loss is denoted by “()”)	XVII. 5	320,567,603.68	4,279,688.08
Including: Gain on investment to associates and joint ventures		—	4,279,688.08
Gain on disposal of assets (loss is denoted by “()”)		(8,719.98)	—
Other gains		—	—
II. Operating profit (loss is denoted by “()”)		225,253,064.90	(78,272,135.12)
Add: Non-operating income		12,345,341.24	3,607,325.22
Less: Non-operating expenses		714,535.11	268,025.06
III. Total Profit (total loss is denoted by “()”)		236,883,871.03	(74,932,834.96)
Less: Income tax expenses		11,608,232.84	—
IV. Net profit (net loss is denoted by “()”)		225,275,638.19	(74,932,834.96)
(1) Net profit from continuing operations (net loss is denoted by “()”)		—	—
(2) Net profit from discontinued operations (net loss is denoted by “()”)		—	—
V. Other comprehensive income net of tax		37,517,677.69	36,628,596.04
(I) Other comprehensive income which will not be reclassified to profit or loss		—	—
1. Remeasurement of changes in net liabilities or net assets of defined benefit schemes		—	—
2. Share of other comprehensive income of investee that will not be reclassified to profit or loss under equity method		—	—
(II) Other comprehensive income which will be reclassified to profit or loss		37,517,677.69	36,628,596.04
1. Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method		463,216.50	(425,865.15)
2. Gain or loss on changes in fair value of available-for-sale financial assets		—	—
3. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets		—	—
4. Effective portion in gain or loss on cash flow hedging		—	—
5. Exchange difference arising from translation of foreign currency denominated financial statements		—	—
6. Others		37,054,461.19	37,054,461.19
VI. Total comprehensive income		262,793,315.88	(38,304,238.92)
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED CASH FLOW STATEMENT

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services		4,265,982,977.05	3,661,093,951.26
Net increase in customer deposits and interbank deposits			
Net increase in borrowings from the Central Bank			
Net increase in funds borrowed from other financial organisations			
Cash received from insurance contract premiums			
Net cash received from reinsurance business			
Net increase in insured deposits and investments			
Net increase in disposed financial assets measured at fair value and movements recognised in profit and loss in the current period			
Cash from interest, fees and commissions			
Net increase in funds borrowed			
Net increase in funds from reacquired business			
Refund of taxes and levies received		5,440,447.67	4,642,851.31
Other cash receipts relating to operating activities	VI. 51	20,142,997.96	37,988,007.11
Sub-total of cash inflows from operating activities		4,291,566,422.68	3,703,724,809.68
Cash paid for purchase of goods and receiving services		3,731,683,151.70	3,506,151,091.57
Net increase in customer loans and advances			
Net increase in Central Bank deposits and interbank deposits			
Cash paid for insurance contracts claims			
Cash paid for interest, fees and commissions			
Cash paid for policy dividends			
Cash paid to and on behalf of employees		87,010,142.93	64,896,090.93
Payments of taxes and levies		54,840,736.73	38,319,963.15
Other cash payments relating to operating activities	VI. 51	260,590,801.52	144,607,747.21
Sub-total of cash outflows from operating activities		4,134,124,832.88	3,753,974,892.86
Net cash flows generated from operating activities		157,441,589.80	(50,250,083.18)
II. Cash flows generated from investing activities:			
Cash received from recovery of investments		44,935.41	
Cash received from returns on investments		961,354.14	
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		26,391.12	27,514.23
Net cash received from disposal of subsidiaries and other business units		6,132,311.20	25,000,000.00
Other cash receipts relating to investing activities	VI. 51	130,000,000.00	125,000,000.00
Sub-total cash inflows from investing activities		137,164,991.87	150,027,514.23
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		175,802,262.11	107,794,116.62
Cash paid on investments		3,000,000.00	15,053,925.48
Net increase in secured loans			
Net cash paid to acquire subsidiaries and other business units			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		178,802,262.11	122,848,042.10
Net cash flows generated from investing activities		(41,637,270.24)	27,179,472.13

CONSOLIDATED CASH FLOW STATEMENT

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
III. Cash flows generated from financing activities:			
Cash received from capital contributions			
Including: cash received by subsidiaries from capital contribution by minority interest			
Cash received from loans		2,960,241,858.79	3,117,266,944.19
Cash received from bonds issuance			
Other cash receipts from financing activities	VI. 51	30,594.36	124,241,382.96
Sub-total cash inflows from financing activities		2,960,272,453.15	3,241,508,327.15
Cash payments for settlement of debts		3,017,639,519.20	3,183,783,425.49
Cash payments for distribution of dividend, profits or interests settlement		70,098,802.73	59,774,024.75
Including: payments of dividends and profits to minority shareholders by subsidiaries			
Other cash payments relating to financing activities	VI. 51	—	
Sub-total cash outflows from financing activities		3,087,738,321.93	3,243,557,450.24
Net cash flows generated from financing activities		(127,465,868.78)	(2,049,123.09)
IV. Effect of changes in exchange rate on cash and cash equivalents		(10,802,754.54)	12,499,938.66
V. Net increase in cash and cash equivalents		(22,464,303.76)	(12,619,795.48)
Add: Balance of cash and cash equivalents at beginning of period		239,589,331.96	252,209,127.44
VI. Balance of cash and cash equivalents at end of period		217,125,028.20	239,589,331.96

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CASH FLOW STATEMENT OF THE COMPANY

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services		508,311,927.24	496,800,404.03
Refund of taxes and levies received		—	
Other cash receipts relating to operating activities	XVI. 53	16,106,571.62	39,000,548.30
Sub-total of cash inflows from operating activities		524,418,498.86	535,800,952.33
Cash paid for purchase of goods and receiving services		387,210,843.40	446,792,037.33
Cash paid to and on behalf of employees		4,648,190.83	9,084,540.58
Payments of taxes and levies		7,145,758.73	8,095,288.75
Other cash payments relating to operating activities		97,610,133.66	156,457,777.12
Sub-total of cash outflows from operating activities		496,614,926.62	620,429,643.78
Net cash flows generated from operating activities		27,803,572.24	(84,628,691.45)
II. Cash flows generated from investing activities:			
Cash received from recovery of investments		44,935.41	
Cash received from returns on investments		961,354.14	
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		(8,719.98)	
Net cash received from disposal of subsidiaries and other business units		113,532,311.20	25,000,000.00
Other cash receipts relating to investing activities		130,000,000.00	125,000,000.00
Sub-total cash inflows from investing activities		244,529,880.77	150,000,000.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		146,593,197.84	47,704,346.39
Cash paid on investments		3,000,000.00	9,650,000.00
Net cash paid to acquire subsidiaries and other business units			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		149,593,197.84	57,354,346.39
Net cash flows generated from investing activities		94,936,682.93	92,645,653.61

CASH FLOW STATEMENT OF THE COMPANY

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
III. Cash flows generated from financing activities:			
Cash received from capital contributions		—	
Cash received from loans		2,247,765,256.27	1,971,407,820.19
Cash received from bonds issuance		—	
Other cash receipts from financing activities		—	116,570,695.84
Sub-total cash inflows from financing activities		2,247,765,256.27	2,087,978,516.03
Cash payments for settlement of debts		2,243,737,649.11	2,174,238,914.49
Cash payments for distribution of dividend, profits or interests settlement		37,761,519.20	53,282,093.57
Other cash payments relating to financing activities		13,086,241.85	
Sub-total cash outflows from financing activities		2,294,585,410.16	2,227,521,008.06
Net cash flows generated from financing activities		(46,820,153.89)	(139,542,492.03)
IV. Effect of changes in exchange rate on cash and cash equivalents			
		(3,741,099.81)	3,320,252.09
V. Net increase in cash and cash equivalents			
Add: Balance of cash and cash equivalents at beginning of period		72,179,001.47	(128,205,277.78)
		57,008,941.22	185,214,219.00
VI. Balance of cash and cash equivalents at end of period			
		129,187,942.69	57,008,941.22

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Share capital	Other equity instrument			Attributable to shareholders of the Company				Surplus reserves	General risk reserves	Undistributed profits	Minority interest	Total Shareholders' equity	
		Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves						
I. Balance at the end of last year	243,000,000.00	—	—	—	36,229,302.37	—	36,479,142.32	—	37,626,042.30	—	564,022,314.72	(3,323.28)	917,353,478.43	
Add: Changes in accounting policies													—	
Correction of errors in previous periods													—	
Business combination under common control													—	
Others													—	
II. Balance at beginning of year	243,000,000.00	—	—	—	36,229,302.37	—	36,479,142.32	—	37,626,042.30	—	564,022,314.72	(3,323.28)	917,353,478.43	
III. Changes (increase/decrease) for the year (decrease is denoted in "-")	—	—	—	—	21,729,227.35	—	94,316,344.32	—	(2,500,885.66)	—	196,406,270.75	34,659,936.40	344,610,893.16	
(I) Total comprehensive income											218,933,834.57	324,193.41	219,258,027.98	
(II) Contribution from shareholders and reduction of capital												36,450,000.00	36,450,000.00	
1. Ordinary share contributed by shareholders												36,450,000.00	36,450,000.00	
2. Capital contribution by holders of other equity instrument													—	
3. Amount of share-based payment included under shareholders' equity													—	
4. Others													—	
(III) Profit appropriation									22,527,563.82		(22,527,563.82)		—	
1. Transfer to surplus reserves									22,527,563.82		(22,527,563.82)		—	
2. Transfer to general risk reserves													—	
3. Distribution to shareholders													—	
4. Others													—	
(IV) Internal transfer of shareholders' equity													—	
1. Capitalization of capital reserves													—	
2. Capitalization of surplus reserves													—	
3. Surplus reserves for making up losses													—	
4. Others													—	
(V) Special reserves													—	
1. Transfer during the year													—	
2. Utilised during the year													—	
(VI) Others					21,729,227.35		94,316,344.32		(25,028,449.48)				(2,114,257.01)	88,902,865.18
IV. Balance at the end of the year	243,000,000.00	—	—	—	57,958,529.72	—	130,795,486.64	—	35,125,156.64	—	760,428,585.47	34,656,613.12	1,261,964,371.59	

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Share capital	Other equity instrument			Attributable to shareholders of the Company			Special reserves	Surplus reserves	General risk item reserves	Undistributed profits	Minority interest	Total Shareholders' equity
		Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Last year Other comprehensive income						
I. Balance at the end of last year	243,000,000.00				35,384,836.46		(149,453.72)		37,626,042.30		509,876,824.43	(2,481.56)	825,735,767.91
Add: Changes in accounting policies											19,213,984.70		19,213,984.70
Correction of errors in previous periods													
Business combination under common control													
Others													
II. Balance at beginning of year	243,000,000.00				35,384,836.46		(149,453.72)		37,626,042.30		529,090,809.13	(2,481.56)	844,949,752.61
III. Changes (increase/decrease) for the year (decrease is denoted in "-")					844,465.91		36,628,596.04				34,931,505.59	(841.72)	72,403,725.82
(I) Total comprehensive income											34,931,505.59	(841.72)	34,930,663.87
(II) Contribution from shareholders and reduction of capital													
1. Ordinary share contributed by shareholders													
2. Capital contribution by holders of other equity instrument													
3. Amount of share-based payment included under shareholders' equity													
4. Others													
(III) Profit appropriation													
1. Transfer to surplus reserves													
2. Transfer to general risk reserves													
3. Distribution to shareholders													
4. Others													
(IV) Internal transfer of shareholders' equity													
1. Capitalisation of capital reserves													
2. Capitalisation of surplus reserves													
3. Surplus reserves for making up losses													
4. Others													
(V) Special reserves													
1. Transfer during the year													
2. Utilised during the year													
(VI) Others					844,465.91		36,628,596.04						37,473,061.95
IV. Balance at the end of the year	243,000,000.00				36,229,302.37		36,479,142.32		37,626,042.30		564,022,314.72	(3,323.28)	917,353,478.43

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE COMPANY

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Share capital	Other equity instrument			Capital reserves	This year		Special reserves	Surplus reserves	Undistributed profits	Total Shareholders' equity
		Preference share	Perpetual bonds	Others		Less: Treasury shares	Other comprehensive income				
I. Balance at the end of last year	243,000,000.00	—	—	—	32,373,503.04	—	36,479,142.32	—	37,626,042.30	86,307,079.95	435,785,767.61
Add: Changes in accounting policies											
Correction of errors in previous periods											—
Others											—
II. Balance at beginning of year	243,000,000.00	—	—	—	32,373,503.04	—	36,479,142.32	—	37,626,042.30	86,307,079.95	435,785,767.61
III. Changes (increase/decrease) for the year (decrease is denoted in "-")	—	—	—	—	93,251,496.96	—	463,216.50	—	(2,500,885.66)	202,748,074.37	293,961,902.17
(I) Total comprehensive income										225,275,638.19	225,275,638.19
(II) Contribution from shareholders and reduction of capital	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary share contributed by shareholders											—
2. Capital contribution by holders of other equity instrument											—
3. Amount of share-based payment included under shareholders' equity											—
4. Others											—
(III) Profit appropriation	—	—	—	—	—	—	—	—	22,527,563.82	(22,527,563.82)	—
1. Transfer to surplus reserves									22,527,563.82	(22,527,563.82)	—
2. Distribution to shareholders											—
3. Others											—
(IV) Internal transfer of shareholders' equity	—	—	—	—	99,750,000.00	—	—	—	—	—	99,750,000.00
1. Capitalization of capital reserves											—
2. Capitalization of surplus reserves											—
3. Surplus reserves for making up losses											—
4. Others					99,750,000.00						99,750,000.00
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—
1. Transfer during the year											—
2. Utilised during the year											—
(VI) Others	—	—	—	—	(6,498,503.04)	—	463,216.50	—	(25,028,449.48)	—	(31,063,736.02)
IV. Balance at the end of the year	243,000,000.00	—	—	—	125,625,000.00	—	36,942,358.82	—	35,125,156.64	289,055,154.32	729,747,669.78

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE COMPANY

2017

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Share capital	Other equity instrument				Capital reserves	Last year Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total Shareholders' equity
		Preference share	Perpetual bonds	Others								
I. Balance at the end of last year	243,000,000.00				32,572,121.40		(149,453.72)		37,626,042.30	142,025,930.21	455,074,640.19	
Add: Changes in accounting policies										19,213,984.70	19,213,984.70	
Correction of errors in previous periods											—	
Others											—	
II. Balance at beginning of year	243,000,000.00	—	—	—	32,572,121.40	—	(149,453.72)	—	37,626,042.30	161,239,914.91	474,288,624.89	
III. Changes (increase/decrease) for the year (decrease is denoted in "-")	—	—	—	—	(198,618.36)	—	36,628,596.04	—	—	(74,932,834.96)	(38,502,857.28)	
(I) Total comprehensive income										(74,932,834.96)	(74,932,834.96)	
(II) Contribution from shareholders and reduction of capital	—	—	—	—	—	—	—	—	—	—	—	
1. Ordinary share contributed by shareholders											—	
2. Capital contribution by holders of other equity instrument"											—	
3. Amount of share-based payment included under shareholders' equity											—	
4. Others											—	
(III) Profit appropriation	—	—	—	—	—	—	—	—	—	—	—	
1. Transfer to surplus reserves											—	
2. Distribution to shareholders											—	
3. Others											—	
(IV) Internal transfer of shareholders' equity	—	—	—	—	—	—	—	—	—	—	—	
1. Capitalization of capital reserves											—	
2. Capitalization of surplus reserves											—	
3. Surplus reserves for making up losses											—	
4. Others											—	
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—	
1. Transfer during the year											—	
2. Utilised during the year											—	
(VI) Others	—	—	—	—	(198,618.36)	—	36,628,596.04	—	—	—	36,429,977.68	
IV. Balance at the end of the year	243,000,000.00	—	—	—	32,373,503.04	—	36,479,142.32	—	37,626,042.30	86,307,079.95	435,785,767.61	

Zhang Yunxia
Chairman

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

I. BASIC INFORMATION OF THE COMPANY

Powerleader Science & Technology Group Limited (hereinafter referred to as the "Company", referred to as the "Group" together with its subsidiaries), formerly known as Shenzhen Powerleader Science & Technology Limited, was established in 1997 in Shenzhen as a limited liability company and listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 08236) in December 2002. The Company's Unified Social Credit Number is 91440300279372097N.

As of 31 December 2017, the total share capital of the Company was 243 million shares of RMB1.00 each, comprising 182.25 million restricted shares, accounted for 75% of the total capital, and 60.75 million non-restricted shares, accounted for 25% of the total capital. The capital structure was as follows:

Expressed in: RMB

Company Name	Amount	Shareholding Percentage (%)
Shenzhen Powerleader Investment Holdings Limited	102,184,500	42.05
Shenzhen Hengtong Dayuan Electronic Limited	23,958,000	9.86
Harbin Shijilongxiang Science & Technology Development Limited	15,963,750	6.57
Urumqi Yali Anda Investment Co., Ltd* (烏魯木齊雅利安達股權投資有限公司)	15,000,000	6.17
Shenzhen Lüheng Technology Limited	7,893,750	3.25
Shenzhen Jinbo Litong Investment Partnership (Limited Partnership)	7,250,000	2.98
Shenzhen Jiachong Joint Investment Partnership (Limited Partnership)	5,000,000	2.06
Shenzhen Zhizheng Lida Investment Partnership (Limited Partnership)	5,000,000	2.06
Overseas listed foreign shares	60,750,000	25.00
Total	243,000,000	100.00

The Company is a player in the computer industry, its principal business scope covers: computer software, hardware and interface equipment, development, production, and sales of self-made computer accessories; import and export services; lease of property and property services; energy savings technology development services; energy savings technology consulting and exchange services; energy savings technology transfer services; energy technology consulting services; energy technology research and technology development services; energy management services; and power distribution services; metal structure manufacturing, mobile telecommunications and terminal equipment manufacturing, manufacturing of other electronic equipment, and provision of technical services for the production of semiconductors, flat-screen displays, and PV cells in other professional technological service industries (the above items do not involve special management measures for foreign investment access.)

The controlling shareholder of the Company is Shenzhen Powerleader Investment Holdings Limited (hereinafter referred to as "Powerleader Holdings"). The ultimate controllers of the Group are Li Ruijie and Zhang Yunxia. The General Meeting is the sovereign body of the Company. It exercises its rights of resolution in respect of significant events such as operating directions, fund raising, investment and profit appropriations of the company in accordance with the laws. The Board is responsible to the General Meeting. It exercises its rights of making operation decisions in accordance with the laws. Managers are responsible for organizing and implementing the resolutions passed by the General Meeting and Board Meeting and are in charge of the management of production and operations.

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

II. THE SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The scope of the consolidated financial statements of the Group covers 6 second-tier subsidiaries, 4 third-tier subsidiaries, 1 fourth-tier subsidiary, 4 fifth-tier subsidiaries and 1 sixth-tier subsidiary including the Company, PC Research Institute, Hong Kong Powerleader and Baotong Zhiyuan. Compared with the previous year, Powerleader VC and Khorgas Baoyun were added upon capital increment in Powerleader Computing, while Baoteng Internet, Powerleader Data Service and Qaramay Baoteng Big Data were disaffiliated upon disposal of Baoteng Internet.

For details, please see the relevant information in note VII "Changes in scope of consolidation" and note VIII "Interests in other entities".

III. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

(1) Basis for preparation

These financial statements have been prepared on a going concern basis based on transactions and events effectively incurred and in accordance with the "Accounting Standards for Business Enterprises" and relevant requirements (hereinafter collectively referred to as "ASBE") issued by the Ministry of Finance of the PRC and the disclosure requirements of the "Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No.15 — General Requirements for Financial Reporting (revised 2014)" of the China Securities Regulatory Commission, the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited, and on the basis of accounting policies and accounting estimates referred to in "IV. Principle accounting policies and accounting estimates" in these notes.

(2) On-going concern

The Group evaluated the ability of the Group to continue as a going concern for the 12 months commencing from 31 December 2017, and no events or circumstances which may cast significant doubt about the Group's ability to continue as a going concern were found. As a result, this financial statement was prepared based on the going-concern assumption.

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of Compliance to ASBE

The financial statements prepared by the Company are in compliance with the requirements of the ASBE and give a true and complete view on such information as the financial position, operating results and cash flows of the Company and the Group as at 31 December 2017.

2. Accounting period

The accounting year of the Group is from 1 January to 31 December of each Gregorian calendar year.

3. Operating cycle

The operating cycle of the Group's business is relatively short and the classification criterion of the liquidity of assets and liabilities is 12 months.

4. Functional currency

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***5. Accounting treatments for business combination under common control and not under common control**

Assets and liabilities acquired by the Group, as the combining party, in business combination under common control are measured at the carrying amount of the combined party in the consolidated statements of the ultimate controller as at the date of combination. The difference between the carrying amount of the net assets acquired and the carrying amount of the consideration of combination paid shall be adjusted against the capital reserves. If the capital reserves are insufficient to offset the difference, any excess shall be adjusted against the retained earnings.

The identifiable assets, liabilities and contingent liabilities acquired in a business combination not under common control are measured at fair value as at the acquisition date. The cost of combination is the sum of the fair value of cash or non-cash assets paid, liabilities issued or assumed and equity securities issued by the Group to obtain the control of the acquiree as at the acquisition date, and various directly related expenses incurred in the business combination (for business combination achieved through multiple transactions by phases, the combination cost of which is the sum of the cost of each individual transaction). Where the cost of combination exceeds the fair value attributable to the identifiable net asset of the acquiree acquired in the combination, the difference is recognised as goodwill, where the cost of combination is less than the fair value attributable to the identifiable net asset of the acquiree acquired in the combination, the fair value of each identifiable assets, liabilities and contingent liabilities acquired in the combination and the fair value of the non-cash assets or equity securities issued in the consideration of the combination shall be reassessed first, where the combination cost is still less than the fair value attributable to the identifiable net asset of the acquiree acquired in the combination after reassessment, the difference is included in the consolidated non-operating income for the current period.

6. Preparation methods of consolidated financial statements

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

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

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

For subsidiaries acquired under a business combination under common control, the operating results and cash flows are included into the consolidated financial statements at the beginning of the period of combination. In preparing the consolidated financial statements for comparison, adjustments are made to relevant items of the financial statements of the prior year, as if the reporting subject resulted from the combination has been in existence from the point of time which control of the ultimate controller begins.

For equity in an investee under common control acquired progressively over multiple transactions which eventually form a business combination, supplementary disclosure should be made on its treatment in the consolidated financial statements during the reporting period in which control was obtained. For instance, for equity in an investee under common control acquired over multiple transactions which eventually form a business combination, adjustment is performed as if the current state had prevailed when the ultimate controlling party obtained control, while in preparing the comparative statement, the relevant assets and liabilities are merged into the comparative statement of the Group's consolidated statement based on a point in time not earlier than when the Group and the combined party were under the common control of the ultimate controlling party, and for net assets added from the combination, relevant items under ownership interests are adjusted in the comparative statement. To avoid double counting of the combined party's net asset value, the recognised profit and loss, other comprehensive income and movements in other net assets for long term equity investment held by the Group before the combination for the period between the date of obtaining the original equity and the date prior to the Group and the combined party coming under common control should be set off against the retained earnings at the beginning of the period and the current profit and loss respectively.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

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

6. Preparation methods of consolidated financial statements

For subsidiaries acquired under a business combination not under common control, the operating results and cash flows are included into the consolidated financial statements from the date which the Group obtained control. In preparing the consolidated financial statements, adjustments are made to the financial statements of the subsidiaries on the basis of the fair value of each identifiable assets, liabilities and contingent liabilities as determined as at the acquisition date.

For equity in an investee not under common control acquired progressively over multiple transactions which eventually form a business combination, supplementary disclosure should be made on its treatment in the consolidated financial statements during the reporting period in which control was obtained. For instance, for equity in an investee not under common control acquired over multiple transactions which eventually form a business combination, equity of the acquired party held prior to the acquisition date is remeasured based on the fair value of such equity on the acquisition date, and the difference between the fair value and its carrying value is accounted for as current investment income in preparing the consolidated statement; the relevant equity of the acquired party held prior to the acquisition date involving other comprehensive income under the equity method as well as changes in other ownership interests excluding net profit and loss, other comprehensive income and profit distribution will be converted to investment profit and loss in the period of the acquisition date, excluding other comprehensive income arising from changes arising from the investee's remeasurement of the net liabilities or net assets in the defined benefit plans.

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

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

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

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

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

8. Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***9. Foreign currency business and translation of foreign currency financial statements****(1) Foreign currency trades**

Foreign currency items of the Group's foreign currency trades are translated to RMB at the prevailing spot exchange rate or actual conditions. As at the balance sheet date, translation differences arising thereon are directly included in the profit and loss for the current period, except exchange differences arising from specific foreign currency borrowings for the purchase or construction or production of asset qualifies for capitalisation are treated by the principle of capitalisation.

(2) Translation of foreign currency financial statements

Assets and liabilities in the foreign currency balance sheet are translated at the prevailing spot rates on the date of the balance sheet. Ownership interests other than undistributed profits are translated at the prevailing spot rates on the date of business. Revenue and expenses in the profit statement is translated at the prevailing spot rates on the date of the transaction. Translation differences arising thereon are set out in other comprehensive income. Foreign currency cash flows are translated at the prevailing spot rates on the date of the cash flow event. Impact of exchange fluctuations on cash is set out separately in the statement of cash flows.

10. Financial assets and financial liabilities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

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

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

(1) Financial assets *(continued)*

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

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

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

Receivables represent non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market. Effective interest rate method is used and subsequent measurement performed based on amortised cost. Profit or loss arising from amortisation or impairment and derecognition are included in profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial assets and financial liabilities** *(continued)***(1) Financial assets** *(continued)*1) *Classification, basis of recognition and methods of measurement of financial assets (continued)*

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

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

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

(1) Financial assets *(continued)*

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

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

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

When an impairment loss on a held-for-sale financial asset has occurred, cumulative loss arising from decreased fair value originally included in ownership interests is transferred and recognised in impairment losses. For held-for-sale debt instrument investments with recognised impairment losses, in the event of subsequent increase in fair value which is objectively related to events occurring after the initial recognition of impairment loss, the initially recognised impairment loss is retransferred and recognised in current profit and loss. For held-for-sale equity instrument investments with recognised impairment losses, subsequent increase in fair value is directly recognised in ownership interests.

(2) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss for the current period, including held-for-trading financial liabilities and financial liabilities designated as financial liabilities at fair value through profit or loss for the current period at initial recognition. They are subsequently measured at fair value. The gain or loss arising from changes in fair value and dividends and interest expenses related to such financial liabilities are recognized in profit or loss for the current period.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

2) Conditions for derecognition of financial liabilities

When the present obligations of a financial liability are released in whole or in part, such financial liability is derecognised to the extent of the obligations released. Where a company signed an agreement with its creditor to replace an existing financial liability by assuming a new financial liability with contractual terms substantively differ from the existing financial liability, the existing financial liability is derecognised while the new financial liability is recognised. Where a company substantively revises in whole or in part the contractual terms of an existing financial liability, the existing financial liability is derecognised in whole or in part, while the financial liability with revised terms is recognised as a new financial liability. The difference between the carrying amount of the derecognised part and the consideration paid is included in the profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***10. Financial assets and financial liabilities** *(continued)***(3) Method for fair value determination of financial assets and financial liabilities**

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

11. Provision for bad debts of receivables

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***11. Provision for bad debts of receivables** *(continued)***(2) Receivables for which provision for bad debts are collectively made on the basis of credit risk characteristics****Basis for determination of groups**

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

Provision method for bad debts collectively made

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

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

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

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

Deposit group	Bad debts are not provided for in general for (among others) rental deposits, procurement deposits and petty cash where the difference between the present value of future cash flows and the carrying amount is expected to be insignificant.
Long term strategic cooperative enterprise group	1% for those aged 3 months to 1 year; 2% for those aged 1 to 2 years; 5% for those aged 2 to 3 years, 8% for those aged 3 to 4 years

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***11. Provision for bad debts of receivables** *(continued)***(3) Receivables that are individually insignificant but for which provision for bad debts were individually made**

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

12. Inventories

The inventories of the Group mainly include (among others) raw materials, goods sold, finished goods stocks, packaging materials and low-value consumables.

The perpetual inventory system has been adopted. Inventories are accounted for at effective cost as acquired. In respect of utilisation or delivery of inventories, cost is determined by first-in-first-out method, weighted average method or specific identification method respectively according to business characteristics. Low value consumables and packaging materials are amortised by one-time written off.

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

13. Long-term equity investments

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

The Group's determination on joint-control is based on a collective control over an arrangement by all participating parties or party groups, and the policies of related activities of such arrangement are subject to unanimous agreement by the participating parties collectively controlling the arrangement.

The Group is generally considered to exercise significant control over an investee where more than 20% (including 20%) but less than 50% of voting rights in the investee is owned directly by the Group or indirectly through a subsidiary. For voting rights below 20% held in the investee, the significant influence over the investee is determined by a comprehensive consideration of facts and circumstances such as the representation in the Board of Directors or similar governing bodies in the investee, involvement in the formulation of financial and operation policies of the investee, material transactions entered into with the investee, secondment of members of management to the investee, or the provision of critical technological information to the investee.

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

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

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

For equity in an investee under common control acquired progressively over multiple transactions which eventually forms a business combination, supplementary disclosure of the long term equity investment treatment should be made in the parent's financial statements in the period in which control was obtained. For instance, for equity in an investee under common control acquired progressively over multiple transactions which eventually forms a business combination and constitutes a packaged deal, the Group will treat each transaction as part of a single acquisition of control transaction. Where it does not constitute a packaged deal, net assets of the combined party possessed upon acquisition is recognised in the share of carrying value on the date of acquisition in the consolidated financial statements of the ultimate controller as initial investment cost of long term equity investment. The difference between initially recognised investment cost and the sum of carrying value of long term equity investment prior to combination and carrying value of consideration for additional acquired equity on the date of combination is adjusted in capital reserves, or offset in retained earnings where capital reserves is insufficient.

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

For equity in an investee not under common control acquired progressively over multiple transactions which eventually forms a business combination, supplementary disclosure of the long term equity investment treatment should be made in the parent's financial statements in the period in which control was obtained. For instance, for equity in an investee not under common control acquired progressively over multiple transactions which eventually forms a business combination and constitutes a packaged deal, the Group will treat each transaction as part of a single acquisition of control transaction. Where it does not constitute a packaged deal, the sum of carrying value of equity investment originally held and new increase in investment capital is recognised using the cost method in initial investment cost. For equity held prior to the date of acquisition accounted for using the equity method, other comprehensive income in relation to equity accounted for using the equity method is not adjusted and is upon disposal of such investment treated on the same basis as if the investee directly disposed of the asset or liability in question. For equity recognised as held-for-sale financial asset at fair value held prior to the date of acquisition, cumulative fair value change originally recognised in other comprehensive income is transferred to investment profit and loss in the current period on the date of combination.

Apart from long term equity investment acquired by business combination as mentioned above, for long term equity investment acquired by cash payment, investment cost is measured at the purchase consideration effectively paid; for the long term equity investment acquired by equity securities issuance, the investment cost is measured at the fair value of the equity securities issued; for long term equity investment injected by an investor, the investment cost is measured at the value as agreed in the investment contract or agreement. If the company holds long term equity investment acquired through debt restructuring, non-monetary asset exchange, etc., the method for recognising investment cost should be determined based on rules of relevant business accounting standards and the company's actual conditions.

The Group adopts the cost method to account for investment in subsidiaries, and adopts the equity method to account for investment in joint ventures and associates.

For subsequent measurement of long term equity investment accounted for by cost method, the carrying amount of the cost of such long term equity investment is increased by the fair value of the cost paid for the additional investment and related transaction expenses incurred in respect of subsequent additional investment. The cash dividends or profit declared to be distributed by the investee are recognized as investment income for the current period at its attributable share.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***13. Long-term equity investments** *(continued)*

For subsequent measurement of long term equity investment accounted for by equity method, the carrying amount of the long term equity investment is increased or decreased according to the changes in owners' equity in the investee. In which, the attributable net profit or loss in the investee is recognized on the basis of the fair value of various identifiable assets in the investee at the time of acquisition and in accordance with the accounting policies and accounting period of the Group, based on the share attributable to the investee as calculated according to shareholdings, after elimination of the profit or loss for intra-group transactions with associates and joint ventures and after adjustment to the net profits of the investee.

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

Where common control or significant influence in an investee is lost due to disposal of part of equity interest, the remaining equity interest will be accounted for as held-for-sale financial assets, and the difference between fair value on the date of loss of common control or significant influence and carrying value is recognised in profit and loss in the current period. Other comprehensive income recognised as a result of using the equity method on the original equity investment is treated upon discontinuation of the use of the equity method on the same basis as if the investee were to directly dispose of the relevant asset or liability.

Where control of an investee is lost due to disposal of part of long term equity investment, if the remaining equity interest allows common control of the investee or significant influence over the investee, the equity method is used, and the difference between the carrying value and consideration of the equity interest disposed of is recognised in investment income, while adjustment is performed on the remaining equity interest as if the equity method was used immediately upon its acquisition; if the remaining equity interest does not allow common control of the investee or significant influence over the investee, treatment based on relevant regulations on held-for-sale investment is used, and the difference between the carrying value and consideration of the equity interest disposed of is recognised in investment income, while the difference between the fair value of the remaining equity interest on the date of which control was lost and the carrying value is recognised in investment profit and loss in the current period.

For progressive disposals of equity interests up to loss of control which does not constitute a packaged deal, each transaction is accounted for separately. Those that constitute a packaged deal is treated as a single transaction of disposal with loss of control in a subsidiary; however, the difference between the consideration of each disposal transaction prior to loss of control and the corresponding carrying value of long term investment is recognised in other comprehensive income until they are consolidated into loss of control profit and loss in the current period upon loss of control.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***14. Investment real estate**

The investment real estate of the Group include leased buildings and structures and held-for-sale value-added land use rights. Since October 2017, measurement of investment real estate changed from the cost model to the fair value model.

The Group's basis in using the fair value model is the presence of an active property market where the investment real estate is located and market prices and other relevant information of similar real estate can be obtained through the property market. The Group's methods of obtaining fair value data are mainly real estate valuations, references to market prices of similar real estate, and negotiated prices.

15. Fixed Assets

Fixed assets are the tangible assets with all of the following characteristics, namely, held for the production of goods, provision of services, lease or operation management with over one year of useful life and unit value exceeding RMB5,000.

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

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

No.	Type	Life of depreciation (year)	Estimated residual value rate (%)	Annual depreciation rate (%)
1	Buildings and structures	20-50	5.00	1.90-4.75
2	Plants and machinery	5-10	5.00	9.50-19.00
3	Transportation equipment	10	5.00	9.50
4	Office appliances	3-5	5.00	19.00-31.67
5	Other equipment	5	5.00	19.00

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***15. Fixed Assets** *(continued)*

The Group reviews the expected life of use, estimated net residual value and depreciation method at the end of each year, and changes, if any, is treated as changes in accounting estimates.

The Group's fixed assets acquired through finance lease includes plants and machinery, recognised as fixed assets acquired through finance lease based on finance lease agreements.

The value of leased assets for fixed assets acquired through finance lease is recorded as the fair value of leased assets or present value of the lowest lease payment, whichever is lower. The difference between the recorded value of leased assets and the minimum lease payment is treated as unrecognised finance cost.

Impairment policy for fixed assets acquired through finance lease is consistent with that for self-owned fixed assets. Where it can be reasonably determined that ownership of leased assets can be obtained upon the expiration of the lease, impairment is provided for over the expected useful life of the leased fixed asset; otherwise, impairment is provided for over the lease period or the expected useful life of the leased fixed asset, whichever is shorter.

16. Construction in progress

Construction in progress is carried forward to fixed assets from the date when it is ready for its intended use according to its project budget, project fee or actual project cost in the estimated amount and depreciated with effect from the next month onwards. Upon the completion of final account audit of the completed project, the difference with the original value of the fixed asset is adjusted.

17. Borrowing cost

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

The interest expenses of special borrowings actually incurred for the current period are capitalised after deduction of interest income obtained by the unutilised borrowings deposited in banks or the investment income obtained from temporary investment; the capitalisation amount of general borrowings is determined by the weighted average of the excess of the accumulated asset expenses over the asset expenses of special borrowings and multiplied by the capitalisation rate of the utilised general borrowings. The capitalisation rate is calculated and determined according to the weighted average interest rate of the general borrowings.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

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

18. Intangible assets

The intangible assets of the Group include (among others) land use rights, computer software and R&D software, which are measured at the actual acquisition cost, in which, the actual costs of the intangible assets purchased are determined as the actual consideration paid and other related expenses; research and development expenditures at development phase that satisfy capitalization conditions of intangible assets derived from internal R&D are recognized as actual costs.

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

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

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

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

Capitalisation of the development stage expenses is conditional on all of the below conditions: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; how the intangible asset will generate economic benefits, including the evidence of using such intangible asset to produce product; the availability of adequate technical, financial and other resources to complete the development of and the ability to use or sell the intangible asset; and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

19. Impairment of long term assets

The Group assesses items such as long term equity investments, investment properties, fixed assets, construction in progress measured by cost model, intangible assets with definite life, the Group conducts impairment test where there is any indication of impairment. Intangible assets with indefinite goodwill and useful life are tested at the end of each year for impairment, whether indication of impairment exist or not.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***20. Long term prepayments**

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

21. Employee Remunerations

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

Short-term remunerations mainly include employee salaries and bonuses, the short-term remunerations effectively incurred are recognised as liability during the accounting period in which the employee provides services, and include in the profit or loss for the current period or the costs of relevant assets according to beneficiaries.

Post-employment benefits mainly include (among others) basic pension premium and unemployment insurance, which are classified into defined contribution scheme according to the risks and obligations assumed by the Company. The contributions to the defined contribution scheme paid to separate subject in exchange for the services provided by an employee during the accounting period as at the balance sheet date are recognised as liabilities and are include in the profit or loss for the current period or the cost of relevant assets according to beneficiaries.

22. Provisions

Where an activity related to a contingent event, such as external security, commercial acceptance note discounting, pending litigation or arbitration and product quality warranty satisfy all of the following criteria, the Group recognizes them as liabilities: such obligation is an obligation currently assumed by the Group; the performance of such obligation is likely to result in corporate economic benefit outflow; the amount of such obligation can be reliably measured.

As at the balance sheet date, provision is measured after taking into account such factors as the risks, uncertainties and the time value of money associated with the contingencies, based on the best estimate of the expenses required for discharging the relevant present obligations. If the effect of time value of money is significant, the best estimate is determined as the amount after discounting the expected future cash outflow.

Where expenses required for the settlement of the provision are expected to be compensated by third party in whole or in part, the compensation amount is recognized separately as assets to the extent of the carrying amount of such provision when its recoverability is basically probable.

23. Share-based payments

Share-based payment settled by equity in exchange for provision of services from employees is measured at fair value of the equity instruments granted to employees on the date of grant. Where the exercise of the options are subject to completion of service over the vesting period or attainment of stipulated performance, the fair value amount is recognised in relevant cost or expenses based on the best estimate of the volume of equity instruments during the vesting period and using the straight line method, and capital reserve is increased correspondingly.

Share-based payment settled by cash is measured at fair value of liabilities assumed by the Group determined based on shares or other equity instruments. If immediately exercisable upon grant, fair value of assumed liabilities on the date of grant will be recognised in related costs or expenses, increasing liabilities correspondingly; if exercisable upon the completion of service over the vesting period or attainment of stipulated performance, then on each statement of liabilities date, service obtained in the current period is recognised in costs or expenses based on the fair value amount of the Group's assumed liabilities based on best estimates of the state of exercisable options, adjusting liabilities accordingly.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

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

23. Share-based payments *(continued)*

Fair value of liabilities is remeasured on every statement of liabilities date and settlement date prior to the settlement of the relevant liabilities, and changes are recognised in profit and loss in the current period.

Equity instruments forfeited by the Group during the vesting period (other than forfeitures due to exercise conditions not being met) are considered as having satisfied all exercise conditions for the remainder of the vesting period of the share-based payment scheme for expedited treatment and all expenses for the remainder of the vesting period is recognised in the current period in which the granted equity instruments are forfeited.

24. Recognition and measurement of revenue

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

(1) Revenue from sales of goods

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

Particulars of revenue recognition are as follows:

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

(2) Revenue from provision of services

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

(3) Revenue from transfer of assets use rights

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***25. Government grants**

The Group's government grants include (among others) special subsidy for research and development project, special industrial funds, special incentives for intellectual property rights and drawback VAT. Of which, government grants relating to assets refer to government grants obtained by the Group and used in acquiring and constructing or by other means creating long term assets; government grants relating to revenue refers to government grants other than government grants relating to assets. If the subject of grant is not specified in the government document, the Group will judge based on the foregoing principle of distinction, and where it is difficult to distinguish, it will generally be classified as government grants relating to revenue.

Where a government grant is in the form of monetary asset, it is measured at the actual amount received. Where a grant is made on the basis of fixed amount or there are conclusive evidence at the end of the year that the relevant conditions stipulated by the financial support policies are satisfied and it is expected the funds for financial support will be received, it is measured at the receivable amount. Where a government grant is in the form of non-monetary asset, it is measured at fair value. If the fair value cannot be determined reliably, it is measured at a nominal amount of RMB1.

Government grants relating to assets are offset against the carrying value of the relevant asset or recognised in deferred income, and government grants relating to assets which are recognised as deferred income is recognised in profit and loss in the current period in instalments by the average term method over the useful life of the relevant asset.

For relevant assets disposed, transferred, scraped or damaged before the end of useful life, the relevant undistributed deferred income balance is transferred to profit and loss from asset disposal in the current period.

Government grants relating to revenue which are used to compensate relevant cost expenses or losses in subsequent periods are recognised as deferred income, and is recognised as profit and loss in the current period or offset against relevant costs in the period where relevant cost expenses or losses are recognised. Government grants relating to daily activities are recognised in other income or offset against relevant cost expenses based on the nature of business. Government grants not relating to daily activities are recognised in non-operating income and expenses.

Subsidised loans from preferential policy obtained by the Group is classified based on whether subsidy funds are paid to the loaning bank or directly to the Group and is treated based on the following principles:

- (1) Where subsidy funds are paid to the loaning bank, the loaning bank provides the loan to the Group at a preferential policy rate, and the Group recognises the actual borrowing amount received as the borrowing amount, calculating the relevant borrowing costs based on the principal and the preferential policy rate (or, recognising the fair value of the borrowing as the borrowing amount and calculating the borrowing cost using the real interest method, and recognising the difference between the actual amount received and the fair value of the borrowing as deferred income. Deferred income is amortised over the term of the borrowing using the real interest method and offset against the relevant borrowing costs).
- (2) Where subsidy funds are paid directly to the Group, the Group will offset the corresponding subsidy against the relevant borrowing expenses.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

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

25. Government grants *(continued)*

Government grants to be returned recognised by the Group is treated in the periods where the return is to be performed according to the following:

- 1) Where it has been offset against the carrying value of the relevant asset on initial recognition, the carrying value of the asset is adjusted.
- 2) Where relevant deferred income exists, the carrying balance of the relevant deferred income is offset and the excess is recognised in profit and loss in the current period.
- 3) In other cases, it is directly recognised in profit and loss in the current period.

26. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognised based on the difference between tax bases and carrying amounts of assets and liabilities (temporary differences). Deferred income tax asset is recognized for the deductible losses that are deductible against taxable profit in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is recognized for temporary difference arising from initial recognition of goodwill. No deferred income tax asset or deferred income tax liability is recognized for a temporary difference arising from initial recognition of asset or liability due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the asset is expected to be realized or the liability is expected to be settled.

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

27. Lease

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***28. Available-for-sale**

- (1) The Group classifies non-current assets or disposal group that meet the following criteria as available-for-sale: 1) Disposable immediately under current conditions based on similar transactions for disposals of such assets or practices for the disposal group; 2) Probable disposal; that is, a decision has been made on a plan for disposal and an undertaking to purchase has been obtained, and the disposal is expected to be completed within a year. Relevant approval is required for disposals requiring approval of relevant authorities or regulators as required by relevant regulations. Before the Group classifies non-current assets or disposal groups as held as available-for sale for the first time, the book value of each asset and liability of the non-current assets or disposal group is measured according to the requirements of the relevant accounting standards. On initial measurement or remeasurement on the date of the balance sheet of held as available-for-sale non-current assets or disposal group, where book value is higher than the net value of fair value less disposal expenses, the difference between book value and the net value of fair value less disposal expenses is recognised as asset impairment loss in profit and loss in the current period, and at the same time, provision is made for impairment of held as available-for-sale asset.
- (2) Non-current assets or disposal groups which the Group acquired specifically for disposal, satisfy the requirement of "expected completion of disposal within one year" on the date of acquisition, and is probable to satisfy conditions of other available-for-sale classifications in the short term (usually within 3 months) are classified as available-for-sale on the date of acquisition. At initial measurement, the initial measurement assuming that it is not classified as held-for-sale and the net value of fair value less disposal expenses are compared, and the lower of the two is measured. Other than non-current assets or disposal groups acquired through corporate merger, the difference arising from recognising the net value of fair value of non-current assets or disposal groups less disposal expenses as initial measurement is recognised in profit and loss in the current period.
- (3) Where the Group has lost control of a subsidiary due to reasons such as disposal of investment in a subsidiary, regardless of the Group retaining part equity investment after the disposal, upon the investment in subsidiary intended to be disposed of satisfying the conditions for classification as held as available-for-sale, the investment in subsidiary will be generally classified as held as available-for-sale in the parent's separate financial statements, and all assets and liabilities of the subsidiary is classified as held as available-for-sale in the consolidated financial statements.
- (4) Where there is increase in net value of fair value less disposal expenses for non-current assets held as available-for-sale on subsequent balance sheet dates, the previously charged difference should be recovered and reversed in asset impairment loss recognised after classification as held as available-for-sale investment, with the reversal amount recognised in profit and loss in the current period. Asset impairment loss recognised before classification as held as available-for-sale investment is not reversible.
- (5) Asset impairment loss recognised for disposal groups held as available-for-sale is first offset against the book value of goodwill of the disposal group and then offset against the book values proportionally according to the share of book value of each non-current asset.

Where there is increase in net value of fair value less disposal expenses of held as available-for-sale disposal groups in subsequent assets and liabilities dates, the previously charged difference should be recovered and reversed in asset impairment loss of non-current assets recognised as required by the appropriate relevant measurement after classification as held as available-for-sale investment, with the reversal amount recognised in profit and loss in the current period. Offset goodwill book value and asset impairment loss recognised before classification as held as available-for-sale investment are not reversible.

Reversal amount after recognition of asset impairment loss of held as available-for-sale disposal group other than goodwill in the disposal group should be added proportionally based on the book value share to the book value of each non-current asset.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***28. Available-for-sale** *(continued)*

- (6) No provision for depreciation or amortisation of non-current assets held as available-for-sale non-current assets or disposal groups, and interest on liabilities and other expenses of disposal groups held as available for sale continues to be recognised.
- (7) When non-current assets or disposal groups held for sale are no longer classified as held as available for sale or non-current assets are removed from disposal groups held as available-for-sale, measurement is performed based on the lower of the following: (1) book value prior to classification as held as available-for-sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classification as held as available-for-sale; (2) recoverable amount.
- (8) Upon derecognition of non-current assets or disposal groups held for sale, unrecognised gain or loss is recognised in profit or loss in the current period.

29. Discontinued operations

Discontinued operations refer to components of the Group which satisfies the following conditions and can be independently distinguished, and such components has been disposed of or classified as held as available-for-sale: (1) the component represents an independent major business or an independent major region of activity; (2) the component is an intended disposal of part of a relevant plan of an independent major business or an independent major region of activity; (3) the component is a subsidiary acquired specifically for resale.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***30. Changes in Critical Accounting Policies and Accounting Estimates****(1) Changes in critical accounting policies**

Details and reasons for change in accounting policy	Review process	Notes
On 10 May 2017, the Ministry of Finance issued ASBE 16 — Government subsidies, which was implemented by the Company from 12 June 2017. This change in accounting policy is managed using the future application method.	The relevant changes in accounting policy has been approved by the Board of the Company.	
On 28 April 2017, the Ministry of Finance issued ASBE 42 — Non-current assets, disposal groups and discontinued operations held as available-for sale, which was implemented by the Company from 28 May 2017. This change in accounting policy is managed using the future application method.	The relevant changes in accounting policy has been approved by the Board of the Company.	
On 25 December 2017, the Ministry of Finance issued the Ministry of Finance Notice on Revisions to Format of Issuing General Financial Statements of Enterprises (Caihui (2017) No. 30. In preparing the 2017 statements, the Company reported gains and losses on disposal of non-current assets and gains and losses on exchange of non-monetary assets in "Gain on disposal of assets" instead of "Non-operating income" and "Non-operating expenses". This change in accounting policy is applied using the retrospective adjustment method.	The relevant changes in accounting policy has been approved by the Board of the Company.	This change in accounting policy is applied using the retrospective adjustment method. Non-operating expenditure in 2016 is adjusted by a decrease of RMB27,514.23 and gain on disposal of assets is adjusted by an increase of RMB27,514.23.
In order to objectively and fairly reflect the value of investment real estate held by the Company, measurement of the Company's investment real estate has been changed from the cost model to the fair value model since 20 October 2017.	The relevant changes in accounting policy has been approved by an extraordinary meeting of the Board of the Company.	This change in accounting policy is applied using the retrospective adjustment method.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)***30. Changes in Critical Accounting Policies and Accounting Estimates** *(continued)***(1) Changes in critical accounting policies** *(continued)*

Note: The Group applied the retrospective method for the change in measurement of investment real estate. The comparative statements for 2017 has been restated, adjusting the 2016 balance sheet by an increase of RMB57,844,300.89 in investment real estate, increase of RMB37,054,461.19 in other comprehensive income, increase of RMB19,213,984.70 in opening balance of undistributed profits, and RMB1,575,855.00 in the 2016 income statement.

Item impacted	31 December 2016 (January — December 2016)			1 January 2016		
	Before adjustment	Adjustment amount	After adjustment	Before adjustment	Adjustment amount	After adjustment
	Total assets	23,939,793.12	57,844,300.89	81,784,094.01	9,036,206.94	19,213,984.70
Including: Investment real estate	23,939,793.12	57,844,300.89	81,784,094.01	9,036,206.94	19,213,984.70	28,250,191.64
Total shareholders' equity	542,657,156.15	57,844,300.89	600,501,457.04	509,727,370.71	19,213,984.70	528,941,355.41
Including: Undistributed profits	543,232,475.02	20,789,839.70	564,022,314.72	509,876,824.43	19,213,984.70	529,090,809.13
Other comprehensive income	(575,318.87)	37,054,461.19	36,479,142.32	(149,453.72)	—	(149,453.72)
Net profit	33,354,808.87	1,575,855.00	34,930,663.87	21,269,574.81	—	21,269,574.81
Net comprehensive income after tax	(425,865.15)	37,054,461.19	36,628,596.04			

(2) Changes in critical accounting estimates

Nil

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

V. TAXATION**1. Enterprise Income Tax ("EIT")**

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

The major categories of tax and tax rates applicable to the Group are as follows: (full name of subsidiaries are set out in note VIII.1)

Name of company	Statutory tax rate in the place of operation	Effective tax rate		Tax incentive(s)
		2017	2016	
The Company	25%	15%	15%	Entitled to tax incentive upon passing the review of "New and high technology Enterprises" in 2017, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures deductible from EIT. Preferential period lasts from 2017 to 2020.
Powerleader Computing	25%	15%	15%	Entitled to tax incentive upon passing the review of "New and high technology Enterprises" in 2014, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures deductible from EIT. Preferential period lasts from 2014 to 2016.
Powerleader VC	25%			From 1 January 2010 to 31 December 2020, enterprises which fall under the scope of the Catalogue of Enterprise Income Tax Incentives for Strongly Supported Industries in Poverty Areas of Xinjiang enjoy five years of EIT tax exemption beginning from the tax year in which the first production operating revenue is obtained.
Powerleader Software	25%	15%	15%	Entitled to tax incentive for "New and high technology Enterprises" from 2011 onwards, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures to be deductible from EIT; and is entitled to a tax incentive of two years of full EIT exemption followed by three years of 50% tax rate reduction for enterprises engaging in software and IC designs, pursuant to which EIT is fully exempted for two years from 2009 onwards and followed by a 50% tax reduction in the next three years, pursuant to which, fully exemption is applicable in 2010, and 50% tax rate reduction is applicable from 2011 to 2013. The qualification of "New and high Technology Enterprises" had been renewed in 2017. Preferential period lasts from 2017 to 2020.
Powerleader Property	25%	25%	25%	Levy by verification and assessment: $\text{Cost}/(1-10\%) \times 10\% \times 25\%$
Baotong Zhiyuan	25%	25%	25%	
Research Institute	25%	25%	25%	
Khorgas Baoyun	25%			From 1 January 2010 to 31 December 2020, enterprises which fall under the scope of the Catalogue of Enterprise Income Tax Incentives for Strongly Supported Industries in Poverty Areas of Xinjiang enjoy five years of EIT tax exemption beginning from the tax year in which the first production operating revenue is obtained.
Hong Kong Powerleader	16.5%	16.5%	16.5%	
Hong Kong Baotong	16.5%	16.5%	16.5%	
Binhai Powerleader	25%	25%	25%	
Guangzhou Baoyun	25%	25%	25%	
Powerleader Computing (Hong Kong)	16.5%	16.5%	16.5%	
Powerleader cloud system	25%	25%	25%	
Powerleader Smart	25%	25%	25%	
Tibet Baoteng	25%	15%	15%	(Zang Zheng Fa [2014] No. 51) stipulates that the enterprises in the economic development zone shall be imposed the preferential tax rate of 15% of the enterprise income tax in the western development strategy

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

V. TAXATION *(continued)*

2. Value added tax ("VAT")

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

Tax incentive

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

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

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

4. Property tax

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

5. Land use tax

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, for the financial statement data as disclosed below, "opening" means at 1 January 2017; "closing" means at 31 December 2016; "this year" means 1 January to 31 December 2017, "last year" means 1 January to 31 December 2016 the currency unit is expressed in RMB.

1. Cash and cash equivalents

Item	Closing balance	Opening balance
Cash	374,980.69	886,572.47
Bank deposits	170,560,047.51	238,702,759.49
Other cash and cash equivalents	156,175,871.24	110,016,465.60
Total	327,110,899.44	349,605,797.56
Including: total deposits placed overseas	44,803,660.67	193,346,655.17

As at the end of 2017, the restricted cash and cash equivalents of the Group were RMB109,985,871.24 (opening balance: RMB110,016,465.60), which were guarantee deposits from other cash and cash equivalents pledged to banks for issuing letters of credit and bank acceptance notes.

Particulars of restricted cash and cash equivalents:

Nature of accounts	Closing balance	Opening balance
Guarantee deposits for letters of credit	109,979,998.69	110,010,610.88
Bank acceptance deposits	5,872.55	5,854.72
Total	109,985,871.24	110,016,465.60

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)***2. Notes receivable****(1) Categories of notes receivable**

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	17,906,540.05	4,688,331.00
Commercial acceptance notes	1,411,240.00	1,519,720.00
Total	19,317,780.05	6,208,051.00

The aging of the above notes receivable of the Group at the end of the year is 42 to 197 days.

(2) Notes receivable endorsed or discounted at the end of the year and outstanding as at the balance sheet date

Item	Risk category of accounts receivable (continued)	Amount remain recognised at the end of the year
Bank acceptance notes	54,082,850.30	—
Commercial acceptance notes	19,838,199.00	—
Total	73,921,049.30	—

3. Accounts receivable

Item	Closing balance	Opening balance
Accounts receivable	921,035,122.20	939,001,565.53
Less: Provision for bad debt	49,249,951.13	21,309,202.71
Net amount	871,785,171.07	917,692,362.82

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**(1) Risk category of accounts receivable**

Category	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Percentage	Amount	Percentage of provision	
		(%)		(%)	
Accounts receivable individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	921,035,122.20	100.00	49,249,951.13	5.35	871,785,171.07
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	921,035,122.20	100.00	49,249,951.13	—	871,785,171.07

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

Most of the domestic sales of the Group are on credit, the credit periods of which range from 30 to 180 days.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**(2) Age analysis of accounts receivable**

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

Age	Closing balance	Opening balance
Within three months	493,414,814.22	730,208,917.16
Three months to one year	287,439,404.39	134,619,196.64
1 to 2 years	79,140,091.20	44,481,633.14
2 to 3 years	8,225,072.63	6,191,614.75
3 to 4 years	2,847,167.47	1,891,796.25
4 to 5 years	718,621.16	—
Over 5 years	0.00	299,204.88
Total	871,785,171.07	917,692,362.82

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

Age	Accounts receivable	Closing balance Provision for bad debts	Percentage of provision (%)
Within three months	488,430,171.22	—	—
Three months to one year	303,381,257.25	15,169,062.86	5.00
1 to 2 years	98,671,685.99	19,734,337.19	20.00
2 to 3 years	13,708,454.38	5,483,381.75	40.00
3 to 4 years	7,117,918.68	4,270,751.21	60.00
4 to 5 years	3,593,105.80	2,874,484.64	80.00
Over 5 years	1,679,828.88	1,679,828.88	100.00
Total	916,582,422.20	49,211,846.53	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**(2) Age analysis of accounts receivable** (continued)

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

Item	Accounts receivable	Closing balance Provision for bad debts	Percentage of provision (%)
Related party group	—	—	—
Long term strategic cooperation enterprise group	4,452,700.00	38,104.60	0.86
Total	4,452,700.00	38,104.60	—

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

Provision for bad debts amounted to RMB29,416,925.89 during the year. RMB445,110.04 of provision for bad debts had been released during the year. The amount of bad debt provision for the year was RMB1,031,067.43.

(4) Account receivable effectively transferred during the year

Item	Transfer amount
Account receivable effectively transferred during the year	20,621,348.66

Among which, important accounts receivable transferred:

Name of entity	Nature of accounts receivable	Transfer amount	Transfer reason	Transfer provision for bad debt
Shenzhen Subita Network Technology Limited (深圳市速必拓網絡科技有限公司)	Current account	2,076,482.76	Asset delivery	103,824.14
Powerleader Network Security (Shenzhen) Limited (宝德網絡安全系統(深圳)有限公司)	Current account	5,734.96	Asset delivery	286.75
China Mobile Group Guangdong Co., Ltd. Shenzhen branch	Current account	373,489.88	Asset delivery	18,674.49
Shenzhen Times Travel Interactive Technology Co., Ltd. (深圳時代首遊互動科技有限公司)	Current account	52,038.63	Asset delivery	2,601.93
China Unicom Co., Ltd. Shenzhen branch	Current account	15,988,287.12	Asset delivery	799,414.36
Mao Danhua (毛丹華)	Current account	2,125,315.31	Asset delivery	106,265.76
Total		20,621,348.66		1,031,067.43

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

Top five accounts receivable grouped by closing balance of attributable debtors for the year amounted to RMB288,806,905.05 in aggregate, accounted for 31.36% of the closing balance of the total accounts receivable, the corresponding provision for bad debts on the total closing balance amounted to RMB12,664,516.76.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)***4. Prepayments****(1) Age of prepayments**

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	9,594,592.63	90.78	17,610,353.44	95.12
1 to 2 years	577,759.98	5.47	726,665.23	3.93
2 to 3 years	249,843.35	2.36	174,308.61	0.94
3 to 4 years	147,193.57	1.39	1,750.00	0.01
Total	10,569,389.53	100.00	18,513,077.28	100.00

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

(2) Closing balance of top five prepayments grouped by attributable creditor of prepayment

During the year, total closing balance of top five prepayments grouped by attributable creditor of prepayment amounted to RMB7,070,643.55, accounted for 66.90% of total closing balance of prepayments.

5. Dividend receivable**(1) Breakdown of divided receivable**

Item (or investee)	Closing balance	Opening balance
Zqgame	795,645.65	795,645.65
Total	795,645.65	795,645.65

(2) Significant divided receivable aged over 1 year

Item (or investee)	Closing balance	Age	Reason for outstanding receivable	Whether impairment has occurred and basis of judgement
Zqgame	795,645.65	1 year	Unreleased	No
Total	795,645.65	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. Other receivables**

Item	Closing balance	Opening balance
Other receivables	691,863,395.53	357,021,979.50
Less: provision for bad debt	24,177,943.31	481,361.48
Net amount	667,685,452.22	356,540,618.02

(1) Category of other receivables

Category	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Other receivables individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Other receivables for which provision for bad debts has been made on group basis by credit risk characteristics	691,863,395.53	100.00	24,177,943.31	3.49	667,685,452.22
Other receivables individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	691,863,395.53	100.00	24,177,943.31		667,685,452.22

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

- 1) There were no other receivables individually significant for which provision for bad debts has been individually made in this year.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. Other receivables** (continued)**(1) Category of other receivables** (continued)

2) Other receivables for which provision for bad debts has been made by age analysis in groups

Age	Other receivables	Closing balance Provision for bad debts	Percentage of provision (%)
Within three months	170,028,467.93	—	—
Three months to one year	318,804,145.77	12,340,207.29	3.87
1 to 2 years	2,638,772.95	527,754.59	20.00
2 to 3 years	6,558,099.12	2,623,239.65	40.00
3 to 4 years	5,901,316.68	3,540,790.01	60.00
4 to 5 years	4,974,150.06	3,938,929.97	79.19
Over 5 years	950,428.27	950,428.27	100.00
Total	509,855,380.78	23,921,349.78	—

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

Name of group	Other receivables	Closing balance Provision for bad debts	Percentage of provision (%)
Deposit group	36,037,496.01	—	—
Long term strategic cooperation enterprise group	145,970,518.74	256,593.53	0.18
Total	182,008,014.75	256,593.53	—

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

Provision for bad debts amounted to RMB24,009,420.56 during the year. RMB312,838.73 of provision for bad debts has been reversed during the year.

(3) Category of other receivables by nature

Nature	Closing balance	Opening balance
From individual	12,459,524.28	12,155,234.38
From entity	380,219,538.96	330,562,910.32
From related parties	299,184,332.29	14,303,834.80
Total	691,863,395.53	357,021,979.50

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. Other receivables** (continued)**(4) Information on top five other receivables by closing balance attributable to debtors:**

Name of entity	Nature	Closing balance	Age	Percentage to total closing balance of other receivables (%)	Closing balance of provision for bad debts
CT. INTERNATIONAL (HK) LIMITED	Current account	151,448,647.21	Within three months	21.89	—
INTEL	Procurement rebate	122,883,279.13	Within three months	17.76	—
Shenzhen ZQ Game Co., Ltd. (深圳中青宝互动网络股份有限公司)	Disposal proceeds	245,000,000.00	Three months to one year	35.41	12,250,000.00
Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd. (廣州市中聯順通計算機技術服務有限公司)	Current account	72,000,000.00	Within three months	10.41	—
International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司)	Financing security	7,142,857.00	2 to 3 years	1.03	—
Total		598,474,783.34		86.50	15,850,000.00

7. Inventories**(1) Categories of inventories**

Item	Book balance	Closing balance Provision for impairment	Carrying amount
Materials in transits	8,604,922.21	—	8,604,922.21
Raw materials	208,518,716.00	9,281,613.50	199,237,102.50
Construction in progress	18,725,559.43	—	18,725,559.43
Finished goods	242,650,606.66	2,311,780.73	240,338,825.93
Goods in transit	19,113,177.50	2,740,268.26	16,372,909.24
Sub-contracting material	690,489.09	—	690,489.09
Low-value consumables	—	—	—
Total	498,303,470.89	14,333,662.49	483,969,808.40

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. Inventories** (continued)**(1) Categories of inventories** (continued)

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

(2) Provision for impairment of inventories

Item	Opening balance	Increase during the year		Decrease during the year		Closing balance
		Provision	Others	Write-back or write-off	Transfer to others	
Raw materials	5,625,737.16	4,877,529.83	—	1,221,653.49	—	9,281,613.50
Finished goods	5,411,120.36	546,017.75	—	3,620,499.09	24,858.29	2,311,780.73
Goods in transit	3,082,959.39	779,555.13	—	1,122,246.26	—	2,740,268.26
Total	14,119,816.91	6,203,102.71	—	5,964,398.84	24,858.29	14,333,662.49

(3) Provision for impairment of inventories made

Item	Specific basis for determination of net realisable value	Reasons for writeback or write-off during the year
Raw materials	Estimated selling price of finished goods produced less cost to completion and related taxes and levies; Estimated selling price of production raw materials less estimated costs of sales and relevant tariffs	Inventory impairment balance at period end greater than impairment losses provision based on net realisable value
Finished goods	Estimated selling price less estimated cost of sales and related taxes and levies	Inventory impairment balance at period end greater than impairment losses provision based on net realisable value
Goods in transit	Estimated selling price less estimated cost of sales and related taxes and levies	Recognised goods in transit losses

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. Other current assets**

Item	Closing balance	Opening balance	Nature
Reclassification of VAT credit balance	25,789,993.13	21,356,791.40	VAT credit balance
Prepaid expenditure	—	965,677.97	Property rent, decoration, etc
Total	25,789,993.13	22,322,469.37	

9. Available-for-sale financial assets**(1) Information on available-for-sale financial assets**

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Equity instrument available-for-sale Measured at cost	—	—	—	—	—	—
	15,204,904.00	—	15,204,904.00	17,600,000.00	—	17,600,000.00
Total	15,204,904.00	—	15,204,904.00	17,600,000.00	—	17,600,000.00

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

Investee	Opening balance	Book balance		Closing balance	Opening balance	Provision for impairment		Closing balance	Percentage of shareholdings in investee (%)	Cash dividend for the year
		Increase during the year	Decrease during the year			Increase during the year	Decrease during the year			
Shenzhen Qianhai Pengde Mobile Internet Venture Capital Fund (Limited Partnership) (深圳市前海騰德移動互聯網創業投資基金(有限合伙))	4,000,000.00	3,000,000.00	—	7,000,000.00	—	—	—	—	4.00	—
SurDoc Corp.	6,100,000.00	—	6,100,000.00	—	—	—	—	—	2.86	—
Tianjin Scholar Cloud Technology Co. Ltd (天津書生雲科技有限公司)	—	904,904.00	—	904,904.00	—	—	—	—	4.72	—
Onroad (Shenzhen) Capital Management Co., Ltd. — Onroad Capital — Onroad No.1 Investment Fund	5,000,000.00	—	200,000.00	4,800,000.00	—	—	—	—	—	—
Shenzhen Newision Venture Capital Management Co., Ltd.	1,500,000.00	—	—	1,500,000.00	—	—	—	—	8.93	—
Shenzhen Extreme Vision Technology Co., Ltd.	1,000,000.00	—	—	1,000,000.00	—	—	—	—	1.98	—
Total	17,600,000.00	3,904,904.00	6,300,000.00	15,204,904.00	—	—	—	—		—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)***9. Available-for-sale financial assets** *(continued)***(2) Available-for-sale financial assets measured at cost at the end of the year** *(continued)*

1) The Company entered into a partnership agreement with Infotech Ventures Co., Ltd. (盈富泰克創業投資有限公司), Office of Shenzhen VC Fund of Funds Management Committee, Powerleader Holdings and other 8 companies and individuals on 11 June 2014 to jointly establish Shenzhen Qianhai Pengde Mobile Internet Venture Capital Fund (Limited Partnership) (深圳市前海鵬德移動互聯網創業投資基金(有限合伙)), pursuant to which, the Company would invest RMB10 million (representing 4.00%) by three tranches. As of 31 December 2017, the Company had completed the second tranche of investment of RMB3 million, and invested RMB7 million in aggregate, representing 2.8% of the entire partnership subscription amount, which was calculated by cost method.

2) Hong Kong Powerleader, a subsidiary of the Company, entered into an investment agreement on 26 December 2014 to invest US\$1 million in SurDoc Corp. Upon completion of the transaction, Hong Kong Powerleader would hold 2.86% of its equity interest. As of 31 December 2017, the Company no longer holds any equity interest in SurDoc Corp. After completion of the transfer, PC Research Institute's invested capital in Tianjin Scholar Cloud Technology Co. Ltd. is RMB904,904.00 and its shareholding is 4.72%.

On 6 April 2017, Hong Kong Powerleader transferred its entire equity interest of 1,567,398 class A preferred shares of SurCloud Corp (an entity incorporated in Delaware, U.S.) to Tianjin Scholar Investment Co. Ltd. (天津書生投資有限公司) at the negotiated price of RMB452,452. On 6 April 2017, Tianjin Scholar Investment Co. Ltd. transferred its entire equity interest of 2.380% in Tianjin Scholar Cloud Technology Co. Ltd. to PC Research Institute; upon completion of the transfer, PC Research Institute held as to 4.760% equity interest in Tianjin Scholar Cloud Technology Co. Ltd., representing subscribed registered capital of RMB904,904. On 3 May 2017, pursuant to an equity investment agreement of Tianjin Scholar Cloud Technology Co. Ltd., Beijing Zhongguancun Opening-up Fund Management Centre (limited partnership (北京中關村開放基金管理中心(有限合伙))) invested in; upon completion of the capital injection, the shareholding of PC Research Institute in Tianjin Scholar Cloud Technology Co. Ltd. was diluted from 4.760% to 4.72%.

3) On 25 January 2016, the Company signed the Onroad Capital No. 1 Investment Fund Contract with the fund manager Onroad (Shenzhen) Capital Management Co., Ltd. and the fund custodian China Merchants Bank Co., Ltd. to subscribe for a fund share of RMB5 million. As of 31 December 2017, RMB200,000 fund management fee for the year has been deducted from the shareholding based on the NAV of the fund. The contract number is Zhao Shen BG-2015-PE-048.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)***9. Available-for-sale financial assets** *(continued)***(2) Available-for-sale financial assets measured at cost at the end of the year** *(continued)*

- 4) On 30 June 2016, the Company entered into the partnership agreement with Shenzhen Newsion Venture Capital Management Co., Ltd., Shenzhen Qianhai Xincheng Yuanfeng Investment Management Co., Ltd. (深圳前海信誠源豐投資管理有限公司), Shenzhen Zqgame Interactive Network Co., Limited and Shenzhen Powerleader Investment Holding Co., Ltd., and Shenzhen Heyou Fund Co., Ltd. (深圳市合友基金有限公司) to establish Shenzhen Newsion Hengzhi Investment Center (limited partnership). The Company invested a total of RMB5 million in two tranches, representing 8.93% of total investment. As of 31 December 2017, the Company has paid RMB1.5 million, accounted for using the cost method.
- 5) On 21 April 2016, the Company entered into the investment agreement with five investors of Shenzhen Heshi Changxing Investment Fund Partnership (limited partnership) (深圳河石長興投資基金合夥企業(有限合夥)) and Shenzhen Onroad Equity Investment Fund Partnership (limited partnership) as well as 4 original shareholders of Shenzhen Extreme Vision Technology Co., Ltd. (hereinafter "Extreme Vision") including Liang Lizhen and Luo Yun to agree that the Company subscribed new registered capital of RMB32,520 of Extreme Vision at a consideration of RMB1 million, of which RMB32,520 was included in the registered capital of Extreme Vision and the remaining RMB967,480 was included in the capital reserve of Extreme Vision, holding as to 2.00% equity interest in Extreme Vision upon completion of this investment. On 9 January 2017, Jingjungaofei (Shenzhen) Business Management Co., Ltd. (競駿高飛(深圳)企業管理有限公司) subscribed as to RMB16,424 of additional registered capital at a consideration of RMB1 million. After this capital increase, the Company's share of equity interest was diluted to 1.98%. On 25 October 2017, the Company transferred its 1.98% equity interest in Extreme Vision to Powerleader VC at a consideration of RMB1 million (corresponding to registered capital of RMB32,520). Other shareholders did not exercise their right of first refusal (the subscribed registered capital of Extreme Vision is RMB1,642,441). The transfer has been filed and registered.

(3) Analysis of available-for-sale financial assets are as follows:

Item	Closing balance	Opening balance
Non-listed	15,204,904.00	17,600,000.00
Total	15,204,904.00	17,600,000.00

All available-for-sale financial assets are recognised using the cost method.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. Long-term equity investments**

Investee	Opening balance	Reduction in investment	Increase/decrease during the year			Distributable cash dividend or profit declared	Closing balance	Closing balance for impairment provision
			Gains or losses recognised by equity method	Adjustment in other comprehensive income	Other changes in equity			
II. Associated company								
Shenzhen Zqgame Co., Ltd.	144,748,771.68	—	7,665,211.10	(38,305,087.99)	463,216.50	—	114,572,111.29	—
Beijing Haiyun Jiexun Technology Limited	11,636,600.15	—	(1,062,219.06)	6,778,135.47	—	—	17,352,516.56	—
Sichuan Baoteng Internet Technology Limited	6,132,311.20	6,132,311.20	—	—	—	—	—	—
Total	162,517,683.03	6,132,311.20	6,602,992.04	(31,526,952.52)	463,216.50	—	131,924,627.85	—

11. Investment real estate*Investment real estate measured using the fair value model*

Item	Buildings and structures	Land use rights	Construction in progress	Total
I. Opening balance	81,784,094.01			81,784,094.01
II. Movement during the year	5,175,926.00	119,459,288.00		124,635,214.00
Add: External acquisition				
Transfer from intangible assets		118,921,409.00		118,921,409.00
Less: Disposal				
Other transfer				
Add: Fair value changes	5,175,926.00	537,879.00		5,713,805.00
III. Closing balance	86,960,020.01	119,459,288.00		206,419,308.01

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. Fixed assets****(1) Breakdown of fixed assets**

Item	Buildings and structures	Machinery and equipment	Transportation equipment	Office appliances	Other equipment	Total
I. Initial carrying amount						
1. Opening balance	188,461,152.75	316,391,960.21	9,113,735.76	23,411,085.41	780,059.37	538,157,993.50
2. Amount of increase during the year	99,308,212.69	8,262,006.55	3,189,382.48	1,284,472.16	523.82	112,044,597.70
(1) Addition	8,518,345.05	8,262,006.55	3,189,382.48	1,284,472.16	523.82	21,254,730.06
(2) Transfer from construction in progress	—	—	—	—	—	—
(3) Transfer from others	90,789,867.64	—	—	—	—	90,789,867.64
3. Amount of decrease during the year	133,560,203.57	101,396,730.43	2,687,956.76	9,027,867.10	15,187.16	246,687,945.02
(1) Disposal or retirement	133,560,203.57	101,396,730.43	2,687,956.76	6,455,721.60	15,187.16	244,115,799.52
(2) Transfer to others	—	—	—	2,572,145.50	—	2,572,145.50
4. Closing balance	154,209,161.87	223,257,236.33	9,615,161.48	15,667,690.47	765,396.03	403,514,646.18
II. Accumulated depreciation						
1. Opening balance	32,044,925.55	53,196,524.88	6,079,342.53	15,076,320.82	664,016.74	107,061,130.52
2. Amount of increase during the year	51,792,458.93	1,164,345.55	5,855,637.31	2,544,726.42	23,569.41	61,380,737.62
(1) Provision	28,823,288.91	1,164,345.55	5,855,637.31	2,544,726.42	23,569.41	38,411,567.60
(2) Transfer from others	22,969,170.02	—	—	—	—	22,969,170.02
3. Amount of decrease during the year	36,565,011.42	14,604,380.85	7,511,889.70	5,718,517.41	14,427.80	64,414,227.18
(1) Disposal or retirement	36,565,011.42	14,604,380.85	7,511,889.70	4,351,241.50	14,427.80	63,046,951.27
(2) Transfer to others	—	—	—	1,367,275.91	—	1,367,275.91
4. Closing balance	47,272,373.06	39,756,489.58	4,423,090.14	11,902,529.83	673,158.35	104,027,640.96
III. Provision for impairment						
1. Opening balance	—	—	—	—	—	—
2. Amount of increase during the year	—	—	—	—	—	—
3. Amount of decrease during the year	—	—	—	—	—	—
4. Closing balance	—	—	—	—	—	—
IV. Carrying amount						
1. Carrying amount at the end of the year	106,936,788.81	183,500,746.75	5,192,071.34	3,765,160.64	92,237.68	299,487,005.22
2. Carrying amount at the beginning of the year	156,416,227.20	263,195,435.33	3,034,393.23	8,334,764.59	116,042.63	431,096,862.98

Depreciation of fixed assets recognised in profit or loss during the year was RMB38,411,567.60 (last year: RMB39,157,933.02).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. Fixed assets** (continued)**(2) Fixed assets leased in by financing lease**

Closing balance	Initial carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery and equipment	57,142,857.00	15,946,428.53	—	41,196,428.47
Total	57,142,857.00	15,946,428.53	—	41,196,428.47

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

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

(3) Fixed assets leased out by operating lease

At the end of the year, no fixed asset was leased out by operating lease.

(4) Fixed assets in lack of title certificates

As the staff quarters of the Company located in Futian District (initial value: RMB1,869,900; Carrying amount at the end of the year: RMB1,600,600 (carrying amount at beginning of the year: RMB1,645,500)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

As the property developer of the residential housing of the Company located in Xi'an of Shaanxi (initial value: RMB736,500; Carrying amount at the end of the year: RMB581,500 (carrying amount at beginning of the year: RMB599,200)) could not pass the acceptance test due to substandard fire prevention facilities, therefore, the property certificate of the house has not been obtained.

As the staff quarters of the Company located in Songde Garden (頌德花園) of Meilin (initial value: RMB906,300; Carrying amount at the end of the year: RMB864,600 (carrying amount at beginning of the year: RMB886,400)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

As the staff quarters of the Company located in Kunyi Fuyuan (坤宜福苑) in Pinghu (initial value: RMB463,400; Carrying amount at the end of the year: RMB453,200 (carrying amount at beginning of the year: 0)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

As the staff quarters of the Company located in Weilu Yayuan (偉祿雅苑) in Pinghu (initial value: RMB7,472,100; Carrying amount at the end of the year: RMB7,412,300 (carrying amount at beginning of the year: 0)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**13. Construction in progress****(1) Breakdown of construction in progress**

Item	Closing balance		Book balance	Opening balance	
	Book balance	Provision for impairment Carrying amount		Book balance	Provision for impairment Carrying amount
Guangming new district construction in progress	116,489,455.10	—	116,489,455.10		
Guangzhou IDC Phase II	58,225,449.53	—	58,225,449.53	11,863,516.35	—
Guanlan design fee	283,018.87	—	283,018.87		
Total	174,997,923.50	—	174,997,923.50	11,863,516.35	—

(2) Movements of material construction in progress

Name of project	Opening balance	Increase during the year	Decrease during the year Transfer to fixed assets	Other decrease	Closing balance
Guangming new district construction in progress		116,489,455.10			116,489,455.10
Guangzhou IDC Phase II	11,863,516.35	46,361,933.18			58,225,449.53
Guanlan design fee		283,018.87			283,018.87
Total	11,863,516.35	163,134,407.15			174,997,923.50

Name of project	Budget	Percentage of expenditure injected to budget (%)	Progress (%)	Accumulated capitalised interest	Including: Interest capitalised for the year	Interest capitalisation rate for the year (%)	Source of funds
Guangzhou IDC Phase II	100,200,000.00	58.11	58.11	—	—	—	—
Total	100,200,000.00	58.11	58.11	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. Intangible assets****(1) Breakdown of intangible assets**

Item	Land use rights	Computer software	Software R&D	Total
I. Initial carrying amount				
1. Opening balance	36,926,345.00	6,134,246.44	218,061,560.24	261,122,151.68
2. Amount of increase during the year	—	1,643,884.48	—	1,643,884.48
(1) Addition	—	1,643,884.48	—	1,643,884.48
(2) Internal R&D	—	—	—	—
3. Amount of decrease during the year	29,856,000.00	2,152,299.87	—	32,008,299.87
(1) Transfer to others	29,856,000.00	2,152,299.87	—	32,008,299.87
4. Closing balance	7,070,345.00	5,625,831.05	218,061,560.24	230,757,736.29
II. Accumulated amortisation				
1. Opening balance	5,289,291.08	4,434,950.75	158,504,912.76	168,229,154.59
2. Amount of increase during the year	845,606.73	1,083,362.53	27,502,873.67	29,431,842.93
(1) Provision	845,606.73	1,083,362.53	27,502,873.67	29,431,842.93
3. Amount of decrease during the year	4,787,718.82	230,591.19	—	5,018,310.01
(1) Transfer to others	4,787,718.82	230,591.19	—	5,018,310.01
4. Closing balance	1,347,178.99	5,287,722.09	186,007,786.43	192,642,687.51
III. Provision for impairment	—	—	—	—
1. Opening balance	—	—	—	—
2. Amount of increase during the year	—	—	—	—
3. Amount of decrease during the year	—	—	—	—
4. Closing balance	—	—	—	—
IV. Carrying amount	—	—	—	—
1. Carrying amount at the end of the year	5,723,166.01	338,108.96	—	6,061,274.97
2. Carrying amount at the beginning of the year	31,637,053.92	1,699,295.69	59,556,647.48	92,892,997.09

Depreciation of intangible assets recognised in profit or loss during the year was RMB29,431,842.93 (last year: RMB26,482,771.28). Impairment provision is RMB32,053,773.81.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. Development expenditures****(1) Breakdown of development expenditures**

Item	Opening balance	Increase during the year Internal development expenditures	Decrease during the year Recognised as intangible assets	Transferred to profit or loss for the current period	Closing balance
Dual control redundancy storage server	3,560,865.19	—	—	3,560,865.19	—
High performance computing server	7,432,355.39	—	—	7,432,355.39	—
Storage server	4,475,727.83	—	—	4,475,727.83	—
AI/HPC high density integrated machine	5,745,921.72	—	—	5,745,921.72	—
Total	21,214,870.13	—	—	21,214,870.13	—

16. Long-term prepayments

Item	Opening balance	Increase during the year	Amortised during the year	Other decrease during the year	Closing balance
Decoration fee	1,697,306.63	1,292,755.75	1,282,318.90	—	1,707,743.48
Others	22,110.00	—	22,110.00	—	—
Total	1,719,416.63	1,292,755.75	1,304,428.90	—	1,707,743.48

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. Deferred income tax assets and deferred income tax liabilities****(1) Unutilised deferred income tax assets**

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for assets impairment	44,508,160.17	8,564,513.39	21,699,658.02	4,310,377.64
Total	44,508,160.17	8,564,513.39	21,699,658.02	4,310,377.64

(2) Breakdown of unrecognised deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary differences	75,305,495.57	34,442,230.80
Deductible losses	2,801,275.16	105,426,840.04
Total	78,106,770.73	139,869,070.84

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

Item	Closing balance	Opening balance	Note
Expired in 2015 (2010)	—	—	Deductible losses to be determined by Tax Bureau
Expired in 2016 (2011)	—	1,062,247.53	Deductible losses to be determined by Tax Bureau
Expired in 2017 (2012)	181,767.19	7,686,746.48	Deductible losses to be determined by Tax Bureau
To expire in 2018 (2013)	194,710.85	9,376,455.90	Deductible losses to be determined by Tax Bureau
To expire in 2019 (2014)	966,388.32	18,653,294.93	Deductible losses to be determined by Tax Bureau
To expire in 2020 (2015)	1,458,408.80	68,648,095.20	Deductible losses to be determined by Tax Bureau
Total	2,801,275.16	105,426,840.04	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. Short-term loans****(1) Category of short-term loans**

Category of loans	Closing balance	Opening balance
Guaranteed loans	725,519,452.62	893,951,441.31
Secured loans	445,000,000.00	278,000,000.00
Total	1,170,519,452.62	1,171,951,441.31

Details of guarantee:

Lending bank	Currency	Loan principal in original currency	Guarantor
China Construction Bank (Shenzhen Housing and Urban Construction branch)(Current loan)	RMB	200,000,000.00	Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia
China Construction Bank (Shenzhen Housing and Urban Construction branch) (documentary credit)	US\$	5,822,130.00	Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia
China Construction Bank (Shenzhen Housing and Urban Construction branch) (credit letter)	US\$	46,754,006.00	Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia
Industrial Bank Co. Ltd. (Shenzhen Wenjin sub-branch)	RMB	200,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia
China Citic Bank (Xiangmihu branch)	RMB	70,000,000.00	Li Ruijie, Zhang Yunxia, Nanjing Powerleader
China Resources Bank of Zhuhai (Shenzhen Futian branch)	RMB	40,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia
Industrial and Commercial Bank of China (Bantian branch)	RMB	75,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia
Agricultural Bank of China (University Town of Shenzhen branch)	RMB	100,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia, Binhai Powerleader
Hua Xia Bank (Yitian branch)	RMB	10,000,000.00	Zhang Yunxia, Li Ruijie, Powerleader Holdings, the Company
Shanghai Commercial Bank (Hong Kong Sham Shui Po branch)	US\$	2,540,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Bank of China (Hong Kong) Limited (Telford House, Kowloon Bay branch)	US\$	6,000,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Hongkong and Shanghai Banking Corporation Limited (Telford Garden branch)	US\$	7,660,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Chong Hing Bank	US\$	3,997,800.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. Short-term loans** (continued)**(1) Category of short-term loans** (continued)*Details of guarantee: (continued)*

- 1) As at the end of the year, the short term borrowing of RMB70 million from China Citic Bank was secured by the land for science and education in Yuhua economic development zone in Yuhuatai District of the related party Nanjing Powerleader Cloud Computing Technology Limited (Land No. 14107084017) with security appraisal value of RMB60,114,300.00 and security amount of RMB48,091,440.00.
- 2) As at the end of the year, the short term borrowing of RMB200 million from Construction Bank was secured by the factory and R&D centre of Guanlan Hi-Tech Park, Guanlan Street, Baoan District (Shen Fang Di Zi No. 5000559246). The initial carrying amount was RMB68,399,578.69, the accumulated depreciation was RMB12,784,560.31. The factory area was 23,558.42 m² and its net appraisal value was RMB66,434,744.00. The R&D centre area was 8,607.82 m² and its net valuation was RMB24,274,052.00. The security amount was RMB90,968,926.26.
- 3) As at the end of the year, the Company entered into a facility agreement with the University Town Branch of Agricultural Bank with a facility limit of RMB100 million and a facility period from 22 November 2016 to 15 November 2017. The collateral was No. 84 of West 2nd Street in Kong Gang Economic District of Binhai Powerleader (Fang Di Chan Jin Zi No. 115011200003) with an area of 22,743.32m² and was temporarily valued at RMB191,043,888.00.
- 4) As at the end of the year, the Company entered into the ICBC Shenzhen Credit Grant Approval [2017] No. 00830 Agreement with the Bantian branch of the Industrial and Commercial Bank of China, who provided a facility of up to RMB100 million in 2017 to the Company which is non-restricted use in its entirety and is secured by the Company's Electronics Science & Technology Building Block C Unit 43A (Shen Fang Di Zi No. 3000744043) property as well as personal joint and several guarantee by Li Ruijie and Zhang Yunxia. As the amount of facility used for short-term loans was only RMB75million, the secured loans, calculated in proportion to the facility limit, from the Agricultural Bank amounted to RMB75 million for the period.

19. Notes payable**(1) Categories of notes payable**

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	131,000,000.00	130,000,000.00
Total	131,000,000.00	130,000,000.00

The aging of the above notes payable of the Group at the end of the year is 89 to 181 days.

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. Accounts payable****(1) Accounts payable**

Item	Closing balance	Opening balance
Current accounts with related parties	2,986,783.79	
Payables for purchase of raw materials	352,719,196.05	154,503,428.83
Payables for construction	22,572,503.29	26,253,645.51
Total	378,278,483.13	180,757,074.34

(2) Age analysis of accounts payable

The age analysis of accounts payable by invoice date as at 31 December 2017 is as follows:

Item	Closing balance	Opening balance
Within 1 year	369,944,502.55	167,209,659.73
1 to 2 years	5,379,851.14	10,717,211.91
2 to 3 years	275,807.50	894,312.06
3 to 4 years	891,793.62	1,172,829.98
4 to 5 years	1,024,014.89	—
Over 5 years	762,513.43	763,060.66
Total	378,278,483.13	180,757,074.34

(3) Material accounts payable aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Guangzhou Baifeng Digital Technology Limited (廣州市柏豐數碼科技有限公司)	3,985,741.69	Procurement payment in 2016 payable
Total	3,985,741.69	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**21. Receipts in advance****(1) Receipts in advance**

Item	Closing balance	Opening balance
Total	68,051,656.32	44,725,023.84
Including: over 1 year	9,157,870.81	6,737,896.64

(2) Material receipts in advance aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Shenzhen Wanjiayi Technology Co., Ltd. (深圳萬佳怡科技有限公司)	2,613,600.00	Both parties had disagreements on supply, subsequently resumed after negotiations
Xi'an Tianhe Defence Technology Co. Ltd. (西安天和防務技術股份有限公司)	942,780.00	Both parties had disagreements on supply, subsequently resumed after negotiations
Beijing Guanqun Jinchen Software Co., Ltd. (北京冠群金辰軟體有限公司)	400,000.00	Both parties had disagreements on supply, subsequently resumed after negotiations
Total	3,956,380.00	

22. Employee remuneration payables**(1) Category of employee remuneration payables**

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	8,569,436.72	80,400,107.24	80,979,381.71	7,990,162.25
Post-employment benefits — defined contribution plans	—	4,191,479.84	4,188,568.29	2,911.55
Total	8,569,436.72	84,591,587.08	85,167,950.00	7,993,073.80

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. Employee remuneration payables** (continued)**(2) Short-term remuneration**

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonus, allowance and subsidies	8,569,436.72	71,842,979.04	72,540,708.86	7,871,706.90
Staff benefits	—	5,079,743.18	5,079,743.18	—
Social security insurance	—	2,021,782.89	1,904,191.29	117,591.60
Including: Medical insurance	—	1,743,931.90	1,626,606.32	117,325.58
Work-related injury insurance	—	105,800.71	105,774.37	26.34
Maternity insurance	—	172,050.28	171,810.60	239.68
Housing provident fund	—	1,411,847.65	1,411,182.65	665.00
Union expenses and staff education expenses	—	198.75	—	198.75
Others	—	43,555.73	43,555.73	—
Total	8,569,436.72	80,400,107.24	80,979,381.71	7,990,162.25

(3) Defined contribution plans

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Basic pension	—	3,991,662.38	3,988,835.12	2,827.26
Unemployment insurance	—	199,817.46	199,733.17	84.29
Enterprise annuity	—	—	—	—
Total	—	4,191,479.84	4,188,568.29	2,911.55

23. Tax payables

Item	Closing balance	Opening balance
VAT	32,800,126.22	42,217,043.20
Business tax	—	194,153.16
EIT	30,566,129.03	27,300,869.61
Individual income tax	208,236.95	231,511.27
Urban maintenance and construction tax	596,434.43	293,353.02
Education surcharge	849,867.66	209,530.30
Others	66,115.84	126,946.86
Total	65,086,910.13	70,573,407.42

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)***24. Interest payables****(1) Category of interest payables**

Item	Closing balance	Opening balance
Interest on long-term loan which requires to pay interest by instalments and repay principal at maturity	114,659.72	202,048.61
Short-term loans interest payables	1,031,898.61	—
Total	1,146,558.33	202,048.61

25. Other payables**(1) Category of other payables by nature**

Nature of amount	Closing balance	Opening balance
From related parties	27,993,917.27	135,851,948.40
Current account with entities	7,807,304.05	2,434,023.49
Security for tendering	880,000.00	830,000.00
Current account with individuals	2,676,190.58	998,920.33
Total	39,357,411.90	140,114,892.22

(2) Material other payables aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Powerleader Network Security (Shenzhen) Limited	3,375,616.43	Related current account
Total	3,375,616.43	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**26. Non-current liabilities due within one year**

Item	Closing balance	Opening balance
Long-term loans due within 1 year	36,000,000.00	36,000,000.00
Long-term payment due within 1 year	11,626,399.63	19,494,449.13
Total	47,626,399.63	55,494,449.13

27. Other current liabilities**(1) Category of other current liabilities**

Item	Closing balance	Opening balance
Accrued transportation fee	2,143,932.87	982,843.51
Accrued customs declaration	—	1,421,508.59
Deferred income due within one year	4,260,000.00	4,260,000.00
Accrued rental	—	842,096.02
Total	6,403,932.87	7,506,448.12

(2) Government grants

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**28. Long-term loans****(1) Category of long-term loans**

Category of loans	Closing balance	Opening balance
Guaranteed loans	—	—
Pledged loan	79,000,000.00	115,000,000.00
Sub-total	79,000,000.00	115,000,000.00
The carrying amounts of the aforementioned loans shall be repaid in the following periods:		
Within 1 year	36,000,000.00	36,000,000.00
1 to 2 years	36,000,000.00	36,000,000.00
2 to 5 years	7,000,000.00	43,000,000.00
Less: portion repayable within 1 year	36,000,000.00	36,000,000.00
Total	43,000,000.00	79,000,000.00

Details of guarantees and securities:

Long term loans refer to the fixed assets loan contract entered into between the Company and China Construction Bank Corporation (Shenzhen branch) under the loan contract no. "Jie 2015 Gu 182 Qianhai". The loan principle as agreed by the agreement is RMB0.16 billion with a term from 26 March 2015 to 25 March 2020, the loan is applied as payment for the applicant's initial investment other than capital for equipment procurement, installation or replacement of IDC project, the closing balance was RMB79,000,000.00, and RMB36,000,000.00 will be due within one year. RMB9 million is repayable quarterly from the seventh month after such loan had been granted with the loans settled by the end of the term.

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

- 1) The guarantee contracts included "Bao 2015 Gu 182 Qianhai-1", "Bao 2015 Gu 182 Qianhai-2", "Bao 2015 Gu 182 Qianhai-3" and "Bao 2015 Gu 182 Qianhai-4" respectively; the guarantors were Powerleader Holdings, Zhang Yunxia, Li Ruijie and Ex-channel, respectively.
- 2) The pledge contract was the pledge contract for accounts receivable with contract no. "Zhi 2015 Gu 182 Qianhai". In particular, it has "pledge of accounts receivable/transfer registration agreement" with the agreement numbered "Xie 2015 Gu 182 Qianhai".
- 3) The security contract was numbered "Di 2015 Gu 182 Qianhai-2". The list of secured properties covers the machinery equipment of Powerleader Technology Park, Guanlan Hi-Tech Park, Longhua New District, Shenzhen, with the net value assessed of RMB93,634,627.00 and original book value of RMB162,443,071.63. Of which, the Company transferred part of pledged assets to Baoteng Internet with an original book value of RMB44,738,990.61, accumulated impairment of RMB12,199,051.80, and net value of RMB32,539,938.81. As of the end of the year, the Group's balance of pledged assets had a book value of RMB117,704,081.02, accumulated depreciation of RMB32,127,013.66, and net value of RMB85,577,067.36. The contract of the pledge and its details remain unchanged.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**28. Long-term loans** (continued)**(1) Category of long-term loans** (continued)

Details of interest rates:

As at 31 December 2017, the interest rates of long-term loans were 5.2250% per annum, the weighted average interest rate was 5.5635% per annum (31 December 2016: interest rate for long-term loans were 5.2250%-6.3250% per annum, weighted average interest rate was 5.5635% per annum).

29. Long-term payables**(1) Long term payables by nature**

Item	Closing balance	Opening balance
Financial leasing payables	11,626,399.63	31,120,848.67
Less: the part due within one year	11,626,399.63	19,494,449.13
The part due after one year	—	11,626,399.54
Total	—	11,626,399.54

(2) Breakdown of financial leasing payable

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

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

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

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

Item	Closing balance	Opening balance
Within 1 year	11,882,595.56	20,965,671.72
1 to 2 years	—	12,040,876.11
2 to 3 years	—	—
Sub-total	11,882,595.56	33,006,547.83
Less: unrecognised financing expenses	256,195.93	1,885,699.16
Total	11,626,399.63	31,120,848.67

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**30. Deferred Income****(1) Category of deferred income**

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance	Reason for development
Government grants	30,780,000.00	3,800,000.00	3,571,875.00	31,008,125.00	Government subsidy for projects subject to acceptance test
Total	30,780,000.00	3,800,000.00	3,571,875.00	31,008,125.00	

(2) Government grants items

Government grant item	Opening balance	Amount of additional grants for the year	Amount included in non-operating income for the year	Other changes	Closing balance	Asset-related/ income-related
Key technology research and development, based on high performance hyperconvergence structure project	3,000,000.00	—	—	—	3,000,000.00	Income-related
Powerleader cloud server technological transformation project targeting Internet application	5,000,000.00	—	—	—	5,000,000.00	Asset-related
Application demonstration project for Powerleader distributed big data storage service platform	2,380,000.00	—	759,375.00	—	1,620,625.00	Asset-related
Research and development of cloud application service platform based on vessel technology	4,000,000.00	—	2,812,500.00	—	1,187,500.00	Asset-related
Electronic information industry revitalisation and base transformation project	10,000,000.00	—	—	—	10,000,000.00	Asset-related
Powerleader IAAS cloud server platform industrial application demonstration	—	—	—	—	—	Asset-related
Research on the key technologies for new server system	2,700,000.00	—	—	—	2,700,000.00	Asset-related
Powerleader cloud storage server technology and production transformation project based on Loongson CPU	2,000,000.00	1,000,000.00	—	—	3,000,000.00	Asset-related
Technology development of high-performance distributed cloud storage system	1,000,000.00	1,000,000.00	—	—	2,000,000.00	Asset-related
Research on the key technologies for video cloud monitoring platform	300,000.00	—	—	—	300,000.00	Asset-related
R&D of Powerleader super fusion integrated cloud system	250,000.00	—	—	—	250,000.00	Asset-related
R&D of cloud server virtualisation management platform	150,000.00	1,800,000.00	—	—	1,950,000.00	Asset-related
Total	30,780,000.00	3,800,000.00	3,571,875.00	—	31,008,125.00	

Note: Other changes in the period for Powerleader IAAS cloud server platform industrial application demonstration is amount transferred to other current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**31. Share Capital**

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

This year

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

Last year

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

32. Capital reserves*This year*

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	25,875,000.00	28,227,730.39	—	54,102,730.39
Other capital reserves	10,354,302.37	6,778,135.47	13,276,638.51	3,855,799.33
Total	36,229,302.37	35,005,865.86	13,276,638.51	57,958,529.72

Last year

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

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

The increase in share premium for the year was due to the establishment of four employee shareholding platforms and capital contribution in Powerleader Computing involving share-based payment. Based on the assessment of net assets as at 31 December 2017 conducted by an appraisal agency as the fair value of shares in Powerleader Computing, the difference between the price of employee capital contribution and fair value of RMB28,227,730.39 was recognised in profit and loss in the period.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**33. Other comprehensive income**

Item	Opening balance	This year before income tax	Amount for this year			Attributable to the minority interest after tax	Closing balance
			Less: Amounts transferred to profit or loss for the current period from other comprehensive income in prior period	Less: income tax charge	Attributable to the Company after tax		
I. Other comprehensive income which will not be reclassified to profit or loss		—			—		—
II. Other comprehensive income which will be reclassified to profit or loss	(575,318.87)	463,216.50			463,216.50		(112,102.37)
Including: Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method	(575,318.87)	463,216.50	—	—	463,216.50	—	(112,102.37)
Others	37,054,461.19	93,853,127.82			93,853,127.82		130,907,589.01
Total other comprehensive income	36,479,142.32	94,316,344.32	—	—	94,316,344.32	—	130,795,486.64

34. Surplus reserves*This year*

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	37,626,042.30	22,527,563.82	25,028,449.48	35,125,156.64
Total	37,626,042.30	22,527,563.82	25,028,449.48	35,125,156.64

Last year

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

Pursuant to the Companies Law of the PRC and the articles of association of the Company, the Company is required to appropriate 10% of its annual net profit to statutory surplus reserves, which may be ceased upon accumulation of up to 50% of the registered capital. Statutory surplus reserves can be used to make up losses or increase share capital upon approval. Net profit appropriated to the statutory surplus reserves at year end was RMB22,527,563.82. (2016: No net profit appropriated to the statutory surplus reserves for the year).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**35. Undistributed profits**

Item	Balance for this year	Balance for last year
At the end of last year	564,022,314.72	509,876,824.43
Add: Adjustments to beginning balance of undistributed profits	—	—
Including: Retrospective adjustment according to new requirements of ASBE	—	—
Changes in accounting policies	—	19,213,984.70
Correction of material mistakes in the prior periods	—	—
Changes in scope of business combination under common control	—	—
Other adjustment factors	—	—
At the beginning of this year		529,090,809.13
Add: Net profit attributable to shareholders of the Company for the year	564,022,314.72	34,931,505.59
Less: Appropriation to statutory surplus reserves	218,933,834.57	
Distribution of dividends on ordinary shares	22,527,563.82	
At the end of this year	760,428,585.47	564,022,314.72

Distribution of dividends of ordinary shares for the year: the Directors of the Company do not recommend for the payment of dividend for the year ended 31 December 2016 (2016: the Directors of the Company did not recommend for the payment of dividend for the year ended 31 December 2015).

36. Minority interests*Minority interests attributable to minority shareholders of subsidiaries*

Name of subsidiary	Percentage of minority shareholding (%)	Closing balance	Opening balance
Shenzhen Powerleader Property Development Limited	1.00	(4,826.56)	(3,323.28)
Powerleader Computing	7.49%	34,661,439.68	
Total		34,656,613.12	(3,323.28)

Deficit of minority shareholders written against minority interest of the Group

Name of subsidiary	Balance for this year	Balance for last year
Shenzhen Powerleader Property Development Limited	(4,826.56)	3,323.28
Total	(4,826.56)	3,323.28

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**37. Revenue and operating costs**

Item	Amount for this year		Amount for last year	
	Revenue	Costs	Revenue	Costs
Principle businesses	3,803,993,688.61	3,499,336,757.68	3,426,770,205.39	3,118,480,250.62
Other businesses	14,888,217.48	853,834.65	7,260,005.89	448,552.70
Total	3,818,881,906.09	3,500,190,592.33	3,434,030,211.28	3,118,928,803.32

(1) Principal businesses — classified by sectors

Name of sector	Amount for this year	
	Revenue from principal businesses	Cost of principal businesses
Cloud infrastructure as a service	1,719,837,752.06	1,489,514,728.07
Cloud module as a service	2,012,043,594.70	1,940,153,759.08
Software and platform as a service	72,112,341.85	69,668,270.53
Total	3,803,993,688.61	3,499,336,757.68

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**37. Revenue and operating costs** (continued)**(2) Principal businesses — classified by geographical regions**

Name of geographical region	Amount for this year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	2,587,600,419.75	2,442,050,884.90
Hong Kong	1,100,412,355.98	916,785,449.33
Others	115,980,912.88	140,500,423.45
Total	3,803,993,688.61	3,499,336,757.68

Name of geographical region	Amount for last year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	2,503,506,258.64	2,206,145,361.14
Hong Kong	856,560,036.72	848,317,397.53
Others	66,703,910.03	64,017,491.95
Total	3,426,770,205.39	3,118,480,250.62

(3) Revenue from other businesses and costs of other businesses

Name of business	Amount for this year		Amount for last year	
	Revenue from other businesses	Costs of other businesses	Revenue from other businesses	Costs of other businesses
Service fee revenue	3,676,642.90	853,834.65	2,760,126.10	—
Lease revenue	4,623,288.97	—	1,481,298.51	379,945.81
Others	6,588,285.61	—	3,018,581.28	68,606.89
Total	14,888,217.48	853,834.65	7,260,005.89	448,552.70

(4) The sales to the largest customer during the year amounted to RMB388,848,105.97, accounting for 10.18% of the total sales value (2016: RMB205,275,123.00; 5.98%), while the sales to the 5 largest customers amounted to RMB1,111,866,880.67 in aggregate, accounting for 29.11% of the total sales value (2016: RMB701,437,559.01; 20.43%).

(5) The purchases from the largest supplier during the year amounted to RMB1,842,011,193.49, accounting for 45.58% of the total purchase value (2016: RMB1,663,225,983.20; 54.96%), while the purchases from the 5 largest suppliers amounted to RMB2,634,307,059.26, accounting for 65.18% of the total purchase value (2016: RMB2,250,220,445.56; 74.36%).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**38. Tax and surcharge**

Item	Amount for this year	Amount for last year
Business tax	—	31,500.65
Urban maintenance and construction tax	2,886,475.97	2,126,294.33
Education surcharge	2,061,768.56	1,518,731.18
Stamp duty	1,031,954.84	
Real estate tax	2,174,265.62	
Land use tax	82,618.54	
Others	11,878.49	
Total	8,248,962.02	3,676,526.16

39. Selling expenses

Item	Amount for this year	Amount for last year
Total	88,501,312.71	81,041,851.62
Including: Salaries	34,089,911.16	30,437,060.14
Rent	7,380,570.66	6,307,905.85
Transportation expenses	7,306,970.84	6,208,092.90
Marketing expenses	8,118,434.72	8,896,613.76
Municipal travelling expenses	6,855,315.05	4,705,146.83
Employees' social security insurance	3,761,669.17	3,356,111.99
Entertainment expenses	4,928,781.65	4,313,496.39
Travelling expenses	4,670,942.00	4,042,137.81
Office expenses	3,311,089.99	4,798,868.38
Agency fees	1,618,431.24	920,164.28
Property management fees	802,219.87	1,031,279.19

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**40. Administrative expenses**

Item	Amount for this year	Amount for last year
Total	180,071,006.05	89,628,802.62
Including: Amortisation of intangible assets	60,539,028.82	25,659,157.12
R&D expenses	49,026,859.19	
Salaries	22,829,031.45	21,637,686.35
Share-based payment expenses	28,227,730.39	
Depreciation	8,281,975.50	9,897,259.63
Listing expenses	2,376,159.11	3,162,774.72
Taxes	163,533.50	3,020,297.91
Office expenses	5,623,429.91	2,395,383.34
Agency fees	4,564,687.60	2,881,777.75
Transportation expenses	1,753,676.80	1,988,411.16
Staff incentives	2,067,292.22	2,834,242.68
Service fees	1,787,989.14	1,629,219.85
Rent	1,040,069.79	1,416,416.74
Travelling expenses	2,072,451.39	2,656,859.93
Electricity tariff	1,157,487.58	1,389,820.50
Employees' social security insurance	1,672,065.63	1,337,299.47
Audit fees	1,188,520.67	932,985.18
Insurance fees	1,348,833.56	876,263.11
Renovation expenses	2,637,999.44	533,318.25
Entertainment expenses	865,657.54	1,006,484.66

Management fees of the Group for the year include:

Item	Incurred this year	Incurred last year
Auditor's remuneration	1,188,520.67	932,985.18
— Audit service fees	1,133,436.72	783,509.62
— Tax service fees	55,083.95	149,475.56
— Other services fees	—	—
Total	1,188,520.67	932,985.18

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**41. Finance costs**

Item	Amount for this year	Amount for last year
Interest expenses	74,686,206.26	62,247,769.16
Less: Interest income	919,828.40	30,729,808.95
Add: Gain or loss on foreign currency exchange	(19,058,684.03)	33,167,893.00
Add: Other expenses	7,709,524.74	7,744,236.59
Total	62,417,218.57	72,430,089.80

42. Impairment losses of assets

Item	Amount for this year	Amount for last year
Bad debts losses	52,981,236.41	9,753,864.73
Impairment losses of inventories	1,360,950.13	2,437,313.72
Impairment losses of long-term equity investments	—	20,231,507.72
Impairment losses of intangible assets	32,053,773.81	—
Total	86,395,960.35	32,422,686.17

43. Gain/loss on changes in fair value

Item	Incurred this year	Incurred last year
Investment real estate measured at fair value	5,713,805.00	1,575,855.00
Total	5,713,805.00	1,575,855.00

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**44. Gain on investments**

Item	Amount for this year	Amount for last year
Gain on long-term equity investments accounted for using cost method		
Gain on long-term equity investments accounted for using equity method	6,602,992.04	(11,194,241.38)
Gain on investment on disposal of long-term equity investments	313,003,257.50	15,473,929.46
Gain on investment in financial assets at fair value through profit or loss for the current period during the holding period	—	3,827,093.59
Investment income arising from disposal of financial assets at fair value through profit or loss for the current period	—	(5,002,800.00)
Investment gain on available-for-sale financial assets during held period	300,917.08	—
Investment gain on available-for-sale financial assets on disposal	(5,195,096.00)	—
Investment gain on financial products	660,437.06	—
Total	315,372,507.68	3,103,981.67

45. Gain on asset disposal

Item	Incurred this year	Incurred last year	Recognised in non-recurring gains and losses
Gain on disposal of non-current assets	26,391.12	(27,514.23)	26,391.12
Including: gain on disposal of fixed assets	26,391.12	(27,514.23)	26,391.12
Total	26,391.12	(27,514.23)	26,391.12

46. Other income

Item	Incurred this year	Incurred last year
VAT levy and drawback	5,440,447.67	—
Total	5,440,447.67	—

47. Non-operating income**(1) Breakdown of non-operating income**

Item	Amount for this year	Amount for last year	Recognised in non-recurring gains and losses
Government grants	12,358,000.70	11,435,811.08	12,358,000.70
Payments determined as not payable	—	1,762,389.52	—
Others	217,070.05	588,437.39	217,070.05
Total	12,575,070.75	13,786,637.99	12,575,070.75

The amount included in non-recurring profit or loss for this year was RMB12,575,070.75 (last year: RMB9,143,786.68).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**47. Non-operating income** (continued)**(2) Breakdown of government grants**

Item	Amount for this year	Source and basis	Asset-related/ Income-related
Electronic information industry revitalisation and base transformation project	2,812,500.00	Shen Fa Gai [2013] No. 998	Income-related
Shenzhen technological breakthrough project — R&D of key technology in new server system models	759,375.00	Shenzhen Science & Technology Scheme Project Agreement	Income-related
2017 Li Minju Electrical Machinery Efficiency Optimisation Subsidy Scheme	334,800.00	Shenzhen circular economy and energy-saving, emissions-reducing project announcement	Income-related
Headquarters operational support	161,800.00	The fourth batch of enterprises and project announcements to be supported by the general economic, modern services and advanced manufacturing section under the Futian District industry development special fund in 2017	Income-related
Discounted loan support	741,600.00	The fourth batch of enterprises and project announcements to be supported by the general economic, modern services and advanced manufacturing section under the Futian District industry development special fund in 2017	Income-related
2017 Military-Civilian Integration Special Fund (R&D and industrialisation of key technology in secure controllable rugged servers)	7,500,000.00	Notice on Processing Fund Disbursement Work in 2017	Income-related
Support for business management talents	2,600.00	Table of fourth batch of enterprises and projects to be supported	Income-related
Shenzhen Futian District Enterprise Development Service Centre	8,000.00	The third batch of enterprises and project announcements to be supported by the technology innovation section under the Futian District industry development special fund in 2017	Income-related
Market and Quality Supervision Commission of Shenzhen Municipality	2,400.00	Notice on announcing the first batch of computer software authorship registration subsidy funding list for Shenzhen in 2017 by the Market and Quality Supervision Commission of Shenzhen Municipality	Income-related
Shenzhen Longhua New District Development and Finance Bureau	900.00	Longhua District publicised proposed 2017 intellectual property funded project	Income-related
Subsidy for job stability in 2017 job	14,525.70	On the list of Shenzhen enterprises eligible for subsidy for job stability in 2017	Income-related
Event participation grant on behalf of individual	19,500.00	Futian District Enterprise Development Service Centre	Income-related
Total	12,358,000.70		

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**47. Non-operating income** (continued)**(2) Breakdown of government grants** (continued)

Item	Amount for last year	Source and basis	Asset-related/ Income-related
VAT levy and drawback	4,642,851.31		Income-related
Subsidy for unemployment in 2015	114,044.22	Included in the list of qualified enterprises for subsidy for unemployment 2015	Income-related
Subsidy for unemployment in 2016	121,015.55	Included in the list of qualified enterprises for subsidy for unemployment 2016	Income-related
Subsidy for interest in respect of technology finance credit	800,000.00	According to "Management Measures of the Futian District Industry Development Special Fund, Shenzhen" and the relevant implementation rules, the fourth batch enterprises and projects supported by the Futian District industry development special fund in 2015	Income-related
Special incentive for intellectual property rights (enterprises)	5,400.00	According to "Management District Industry Development Special Fund, Shenzhen" and the relevant implementation rules, the fourth batch enterprises and projects supported by the Futian District industry development special fund in 2015	Income-related
Verification of state-owned high technology enterprises	150,000.00	The second batch of supporting enterprises and announcements supported by the technology innovation section under the 2016 Futian District industry development special fund	Income-related
Special fund for talent development — key enterprises (social organisations)	480,000.00	Rental subsidy for talents introduced to Shenzhen	Income-related
Income-related incentive for patents and software copyrights (enterprises)	5,000.00	The third batch of enterprises and project announcements to be supported by the technology innovation section under the Futian District industry development special fund in 2016	Income-related
Projects to be granted with incentive under key industries and enterprises with expanded capacity and higher efficiency in Shenzhen in 2016	1,198,000.00	Table of projects to be granted with incentive under key industries and enterprises with expanded capacity and higher efficiency in Shenzhen in 2016	Income-related
Comprehensive support	500,000.00	Summary table of the fourth and fifth batch of supporting enterprises and special projects to be supported by the financial service section under the industry development special fund headquarters in Futian District in 2016	Income-related

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**47. Non-operating income** (continued)**(2) Breakdown of government grants** (continued)

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

48. Non-operating costs

Item	Amount for this year	Amount for last year	Recognised in non-recurring gains and losses
Non-recurring losses	237,146.26	18,788.39	237,146.26
Others	530,161.99	987,518.98	530,161.99
Total	767,308.25	1,006,307.37	767,308.25

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**49. Income tax expenses****(1) Income tax expenses**

Item	Amount for this year	Amount for last year
Current income tax — PRC EIT	19,318,886.49	20,466,104.62
PRC	19,135,326.47	20,010,536.23
Hong Kong	183,560.02	455,568.39
Over provision for prior years (under provision is denoted as "+")	(2,905,010.69)	485,163.36
Deferred income tax	(4,254,135.75)	(2,547,827.20)
Total	12,159,740.05	18,403,440.78

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

Item	Amount for this year	Amount for last year
Total consolidated profits for the year	231,417,768.03	51,758,249.65
Income tax charges calculated at applicable tax rates of 15% (2016: 15%)	34,712,665.20	7,763,737.45
Effect of different applicable tax rate among subsidiaries	(612,063.96)	(1,175,859.60)
Adjustment to the income tax over provided for the prior period	(2,744,499.29)	485,163.36
Effect of non-taxable income	—	—
Tax effect of special tax exemption	—	—
Effect of non-deductible costs, expenses and losses	(6,157,661.55)	(7,068,278.01)
Effect of utilisation of deductible losses for which no deferred income tax assets is recognised in prior periods	(26,382,264.62)	(1,197,349.91)
Effect of deductible temporary differences or deductible losses for which no deferred income tax assets is recognised for the year	13,504,075.67	19,596,027.49
Others	(160,511.40)	—
Income tax expenses	12,159,740.05	18,403,440.78

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**50. Other comprehensive income**

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

51. Cash flow statement items**(1) Other cash received/paid relating to operating/investing/financing activities**

1) Other cash received relating to operating activities

Item	Amount for this year	Amount for last year
Current account of entities and individuals	4,920,828.56	10,678,689.33
Government grants	12,575,070.75	21,172,959.77
Interests income	919,828.40	5,145,565.44
Deposits	1,727,270.25	402,355.18
Others	—	588,437.39
Total	20,142,997.96	37,988,007.11

2) Other cash paid relating to operating activities

Item	Amount for this year	Amount for last year
Current account of entities and individuals	160,877,177.79	66,985,170.23
Transportation expenses	9,080,417.80	8,196,504.06
Marketing expenses	5,162,401.21	9,672,752.95
Rent	8,600,897.85	7,724,322.59
Travelling expenses	7,340,295.87	6,698,997.74
Entertainment expenses	8,565,524.91	5,728,013.59
Water and electricity tariffs	2,170,845.27	2,256,386.55
Telephone tariff	1,600,949.36	1,620,523.31
Intermediary fees	4,848,578.55	4,473,118.36
Vehicle expenses	584,604.94	648,343.41
Municipal travel expenses	7,332,371.77	5,086,805.55
Office expenses	8,254,728.85	7,194,251.72
Property management fees	908,717.07	1,159,342.39
Agency fees	6,183,118.84	3,801,942.03
Bank charges	2,692,248.31	7,744,236.59
Service fees	3,887,328.95	2,083,560.07
Others	22,500,594.18	3,533,476.07
Total	260,590,801.52	144,607,747.21

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)***51. Cash flow statement items** *(continued)***(1) Other cash received/paid relating to operating/investing/financing activities** *(continued)*3) *Other cash relating to financing activities*

Item	Amount for this year	Amount for last year
Release of deposit for letter of credit	30,594.38	124,241,382.96
Total	30,594.38	124,241,382.96

4) *Other cash paid relating to financing activities*

Item	Incurred this year	Incurred last year
Security deposit	—	—
Cash paid under the financial lease	—	—
Total	—	—

5) *Other cash receipts relating to investing activities*

Item	Incurred this year	Incurred last year
Cash received for the equity interest to be disposed in the subsidiary	130,000,000.00	125,000,000.00
Total	130,000,000.00	125,000,000.00

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**51. Cash flow statement items** (continued)**(2) Supplementary information for consolidated cash flow statement**

Item	Amount for this year	Amount for last year
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	219,258,027.98	33,354,808.87
Add: Assets impairment losses	86,395,960.35	32,422,686.17
Depreciation of Property Investment	—	158,355.17
Depreciation of fixed assets	38,411,567.60	39,157,933.02
Amortisation of intangible assets	51,534,436.06	26,482,771.28
Amortisation of long-term prepayments	1,304,428.90	1,040,192.61
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain is denoted by “()”)	26,391.12	27,514.23
Loss on retirement of fixed assets (Gain is denoted by “()”)	—	—
Gain or loss on changes in fair value (Gain is denoted by “()”)	(5,713,805.00)	—
Finance costs (Gain is denoted by “()”)	74,686,206.26	62,247,769.16
Loss on investment (Gain is denoted by “()”)	(315,372,507.68)	(3,103,981.67)
Decrease in deferred income tax assets (Increase is denoted by “()”)	(4,254,135.75)	(2,547,827.20)
Increase in deferred income tax liabilities (Decrease is denoted by “()”)	—	—
Decrease in inventories (Increase is denoted by “()”)	(132,207,393.86)	41,795,838.86
Decrease in operating receivables (Increase is denoted by “()”)	(57,473,906.08)	(151,438,377.01)
Increase in operating payables (Decrease is denoted by “()”)	172,618,589.51	(129,847,766.68)
Others	28,227,730.39	—
Net cash flow from operating activities	157,441,589.80	(50,250,083.19)
2. Significant non-cash investing and financing activities:		
Conversion of debts to capital	—	—
Convertible corporate bonds due within 1 year	—	—
Acquisition of fixed assets under finance leases	—	—
3. Net changes in cash and cash equivalents:		
Closing balance of cash	217,125,028.20	239,589,331.96
Less: Beginning balance of cash	239,589,331.96	252,209,127.44
Add: Closing balance of cash equivalents	—	—
Less: Beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	(22,464,303.76)	(12,619,795.48)

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)**51. Cash flow statement items** (continued)**(3) Cash and cash equivalents**

Item	Closing balance	Opening balance
Cash	217,125,028.20	239,589,331.96
Including: Cash in hand	374,980.69	886,572.47
Bank deposits readily available for payments	216,750,047.50	238,702,759.49
Other cash and cash equivalents readily available for payments	—	—
Cash equivalents	—	—
Including: Investments in bonds due within 3 months	—	—
Closing balance of cash and cash equivalents	217,125,028.20	239,589,331.96
Including: Restricted cash and cash equivalents of the Company or subsidiaries under the Group	—	—

52. Statement of changes in Shareholder's equity items

Included in RMB88,902,865.18 under the item "Others" in the Statement of Changes in Owners' Equity for the year:

Included in RMB21,729,227.35 under capital reserves: changes in other equity interest of Haiyun Jiexun led to capital increase of RMB6,778,135.47, changes in other equity interest of Zqgame led to capital decrease of RMB13,276,638.51, share-based payment expenses led to capital increase of RMB28,227,730.39;

Surplus reserves decrease of RMB25,028,449.48 was due to changes in other equity interest of Zqgame;

Included in RMB94,336,344.32 under other comprehensive income, change from self-usage land use rights to held for value-added sale of investment real estate led to increase of RMB93,853,127.82, changes in other equity interest of Zqgame led to increase of RMB463,216.50;

Included in RMB37,473,061.95 under the item "Others" last year, change in measurement model of investment real estate increased other comprehensive movement changes by RMB37,054,461.19, changes in other equity of Zqgame RMB418,600.76.

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

Item	Carrying amount at the end of year	Reason of restriction
Cash and cash equivalent	109,985,871.24	Security deposit
Fixed assets	58,105,595.88	Collateral for loans

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)***54. Foreign currency items****(1) Foreign currency items**

Item	Closing balance of foreign currency	Exchange rate	Closing balance of amount in RMB
Cash and cash equivalents			
Including: US\$	15,391,314.25	6.5342	100,569,925.57
HK\$	601,762.89	0.83591	503,019.62
Accounts receivables			
Including: US\$	1,756,215.77	6.5342	11,475,465.08
Other receivables			
Including: US\$	21,731,463.16	6.5342	141,997,726.58
HK\$	240,813.98	0.83591	201,298.81
Prepayment			
Including: US\$	549,723.72	6.5342	3,592,004.73
Short-term loans			
Including: US\$	72,773,936.00	6.5342	475,519,452.61
Accounts payable			
Including: US\$	58,947,516.69	6.5342	385,174,863.56
Receipts in advance			
Including: US\$	2,443.76	6.5342	15,968.02
Total			1,119,049,724.58

(2) Overseas business units

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VII. CHANGES IN SCOPE OF CONSOLIDATION**1. Changes in scope of consolidation due to other reasons**

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

Name of subsidiary	Level of subsidiary	Date of incorporation	Registered capital	Shareholding percentage	If consolidated or not
Khorgas Powerleader Venture Capital Limited* (霍爾果斯宝德創業投資有限公司)	Third	26 July 2017	RMB130 million	100%	Yes
Khorgas Baoyun Software Development Limited* (霍爾果斯宝雲軟件開發有限公司)	Fifth	26 July 2017	RMB1 million	100%	Yes

2. Disposal of subsidiary

Name of subsidiary	Proceeds of disposal of equity interest	Percentage of disposed equity interest (%)	Method of disposal of equity interest	Time of loss of control	Basis for time of loss of control	Difference between proceeds of disposal and share of net assets in the subsidiary on the level of consolidated financial statement	Percentage of remaining equity interest on date of loss of control	Book value of remaining equity interest on date of loss of control	Fair value of remaining equity interest on date of loss of control	Gain or loss arising from remeasurement at fair value of remaining equity interest	Method of determination of fair value of remaining equity interest on date of loss of control and main assumptions	Other
												comprehensive income relating to equity investment in the original subsidiary transferred to investment profit and loss
Shenzhen Baoteng Internet Technology Limited	RMB 500,000,000.00	100% 58-10	Cash disposal of asset	27 June 2017	Completion of delivery of assets	313,003,257.50	—	—	—	—	—	—

On 29 June 2017, the Company and Zqgame entered into the Asset Delivery Agreement. Upon the completion of the transaction, Zqgame immediately owns as to 100% equity interest in Baoteng Internet. The consideration of the transaction is RMB500 million. The impact on investment gain for the year is RMB313,003,257.50. On 31 July 2017, the Company received RMB130 million of the consideration and the balance receivable is RMB245 million. Baoteng Internet has completed its change of business registration on 27 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VIII. INTERESTS IN OTHER ENTITIES**1. Interests in subsidiaries****(1) Structure of the Group**

Name of subsidiary	Principal place of business	Place of incorporation	Business nature	Registered capital (0'000)	Shareholding percentage (%)		Acquisition method
					Direct	Indirect	
Shenzhen Powerleader Computing System Limited	Shenzhen Municipal	Shenzhen Municipal	Production	3,800.00	27.75	64.76	Established by investment
Khorgas Powerleader Venture Capital Limited* (霍爾果斯宝德創業投資有限公司)	Xinjiang	Xinjiang	Investment	13,000.00		100%	Established by investment
Shenzhen Powerleader Software Development Limited	Shenzhen Municipal	Shenzhen Municipal	Computer services and software industry	1,000.00		100.00	Established by investment
Shenzhen Powerleader Property Development Limited	Shenzhen Municipal	Shenzhen Municipal	Services	50.00	99.00		Established by investment
Shenzhen Baotong Zhiyuan Technology Limited	Shenzhen Municipal	Shenzhen Municipal	Trading	1,000.00	100.00		Established by investment
Shenzhen Powerleader Cloud Computing Research Institute Limited	Shenzhen Municipal	Shenzhen Municipal	Computer services and software industry	1,000.00	100.00		Established by investment
Guangzhou Baoyun Information Technology Co., Ltd.	Guangzhou Municipal	Guangzhou Municipal	Software and information technology service	1,000.00	100.00		Established by investment
Powerleader Science & Technology (HK) Limited	Hong Kong	Hong Kong	Trading	US\$999.00	100.00		Established by investment
Ex-Channel Group Limited	Hong Kong	Hong Kong	Trading	HK\$3,000.00	100.00		Established by investment
Powerleader Binhai Technology (Tianjin) Limited	Tianjin city	Tianjin city	Trading	US\$1,300.00		100.00	Established by investment
Powerleader Computing (Hong Kong) Limited	Hong Kong	Hong Kong	Trading	US\$100.00		100.00	Established by investment
Shenzhen Powerleader Intelligent System Co., Ltd.* (深圳市宝德智能有限公司)	Shenzhen Municipal	Shenzhen Municipal	Technical consultation	1,000.00	100.00		Established by investment
Shenzhen Powerleader Cloud Systems Co., Ltd.* (深圳市宝德雲系統有限公司)	Shenzhen Municipal	Shenzhen Municipal	Trading	1,000.00	100.00		Established by investment
Khorgas Baoyun Software Development Limited* (霍爾果斯宝雲軟件開發有限公司)	Xinjiang	Xinjiang	Investment	100.00		100%	Established by investment
Tibet Baoteng Information Technology Partnership (Limited Partnership)* (西藏宝騰信息科技合夥企業(有限合夥))	Tibet	Tibet	Computer services and software industry	1,000.00		100.00	Established by investment
Shenzhen Zhiyuan Integrated Technology Co., Ltd.* (深圳市志遠集成科技有限公司)	Shenzhen Municipal	Shenzhen Municipal	Trading	1,000.00		100.00	Established by investment

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

None of the subsidiaries of the Company issued any debt securities during the year and no debt securities was outstanding as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VIII. INTERESTS IN OTHER ENTITIES *(continued)***2. Interests in joint ventures or associates****(1) Significant associates**

Name of joint ventures or associates	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Accounting treatment for investment in joint ventures or associates
				Direct	Indirect	
Shenzhen Zqgame Co., Ltd.	Shenzhen Municipal	Shenzhen Municipal	Development and operation of network game	15.24		Equity method
Beijing Haiyun Jiexun Technology Limited	Beijing Municipal	Beijing Municipal	Computer services and software industry	10.135		Equity method

- 1) Shenzhen Zqgame Co., Ltd. (referred to as "Zqgame"). It mainly engages in the development and operation of network games. It was established jointly by the Company and its controlling shareholder, Powerleader Holdings, in 2000. In which, the Company held 99% of its equity interest and Powerleader Holdings held 1% of its equity interest. After a number of shareholding restructuring between 2007 to 2010, in addition to the listing of Zqgame in A shares ChiNext Board in 2010, the shareholding of the Company in Zqgame was diluted from 20.40% to 15.30%. In 2015, a total of 1,038,600 stock options were exercised by the equity incentive objectives of Zqgame, and the shareholdings of the Company was diluted from 15.30% to 15.24%. As the Company takes up 3 seats out of the 7 directors in the board of Zqgame, the Company exercises significant influence over Zqgame, accordingly, Zqgame is accounted by using equity method.
- 2) Beijing Haiyun Jiexun Technology Limited (referred to as "Haiyun Jiexun") was incorporated in Beijing on 25 May 2010 with RMB5 million capital contributed by Lin Zhiguo. Pursuant to the capital increment agreement entered into on 18 October 2013, the Company contributed a total of RMB15 million in 3 tranches. As of 30 June 2016, the capital contribution by the Company amounted to RMB15 million. On 11 August 2015, Intel Semiconductor (Dalian) Co., Ltd. (英特爾半導體(大連)有限公司) subscribed the newly registered capital of RMB1.6 million in Beijing Haiyun Jiexun with a consideration of RMB24.83 million. After such capital increase, the shareholding of Zhang Zhengyu, Li Hua, employees' shareholding, the Company and Intel were 34.06%, 21.98%, 8.62%, 21.55% and 13.79% respectively. Its legal representative is Li Hua. On 31 August 2016, the Company transferred 10% equity (corresponding to registered capital of RMB1.16 million) in Beijing Haiyun Jiexun for a consideration of RMB25 million to Linzhi Tencent Investment Management Co., Ltd. On 23 June 2017, on the basis of existing registered capital of RMB11,600,000, newly registered capital of RMB1,621,505 was acquired by: Zhongcai Quanxing (Quzhou) Equity Investment Fund Partnership (中財荃興(衢州)股權投資基金合夥企業) (RMB756,702); Qingdao Haier Saifu Smart Family Entrepreneurship Investment Centre (青島海爾賽富智慧家庭創業投資中心) (RMB432,401); Ningbo Free Trade Zone Xianghong Equity Investment Centre (寧波保稅區祥虹股權投資中心) (RMB216,201); Intel Semiconductor (Dalian) Co., Ltd. (RMB216,201) at an aggregate premium of 65,000,000; after this capital injection the Company's shareholding percentage in Haiyun Jiexun was diluted from 11.55% to 10.135%. The Company takes up 1 seat out of 5 directors in the Board, which is accounted for using equity method..
- 3) On 10 May 2017, pursuant to an equity transfer agreement, the Company transferred its holding of 49% equity in Sichuan Baoteng (corresponding to registered capital of RMB960,800) to Mr Chen Zewei at a consideration of approximately RMB6,132,311.20 (net book value of long term equity investment). As at 31 December 2017, the Company no long holds any interest in Sichuan Baoteng.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

VIII. INTERESTS IN OTHER ENTITIES (continued)**2. Interests in joint ventures or associates** (continued)**(2) Key financial information of significant associates**

Item	Closing balance/Amount for this year		Opening balance/Amount for last year		
	Zqgame	Beijing Haiyun Jiexun	Zqgame	Sichuan Baoteng	Beijing Haiyun Jiexun
Current assets:	526,766,414.41	108,099,279.72	405,867,096.74	2,792,563.33	49,499,562.81
Including: Cash and cash equivalents	178,208,494.22	28,901,899.22	120,578,134.21	9,918.83	8,965,974.69
Non-current assets	613,086,941.86	9,078,936.51	698,952,801.72	26,209,857.68	6,682,659.80
Total assets	1,139,853,356.27	117,178,216.23	1,104,819,898.46	29,002,421.01	56,182,222.61
Current liabilities	325,256,175.79	11,665,592.64	90,881,744.85	16,487,500.20	8,688,897.89
Non-current liabilities	31,027,208.39	—	37,737,179.79	—	—
Total liabilities	356,283,384.18	11,665,592.64	128,618,924.64	16,487,500.20	8,688,897.89
Minority interests	31,784,464.93	—	26,405,884.12	—	—
Equity attributable to the shareholders of the parent	751,785,507.16	105,512,623.59	949,795,089.70	12,514,920.81	47,493,324.72
Share of net assets calculated on shareholding	114,572,111.29	10,693,704.40	144,748,771.68	6,132,311.20	5,485,479.01
Adjustment events			—	—	—
— Goodwill		6,658,812.16	—	—	6,151,121.14
— Unrealized profit of intragroup transactions			—	—	—
— Others			—	—	—
Carrying amount of equity investment in associates	114,572,111.29	17,352,516.56	144,748,771.68	26,363,818.92	11,636,600.15
Fair value of equity investment in associates quoted in an open market	566,897,527.62		950,796,555.10	—	—
Revenue	313,223,143.38	53,098,293.00	321,348,057.16	4,586,201.25	40,872,210.10
Finance costs	4,488,741.05	(286,000.76)	(5,294,810.55)	4,209.48	(43,304.34)
Income tax expenses	5,732,162.65		18,097,531.58	—	606,520.93
Net profit	49,207,405.84	(10,954,629.94)	(65,575,209.80)	(7,722,438.55)	4,587,339.23
Net profit of discontinued operation		—	—	—	—
Other comprehensive income	(736,191.58)		(2,794,390.76)	—	—
Total comprehensive income	48,471,214.26	(10,954,629.94)	(68,369,600.56)	(7,722,438.55)	4,587,339.23
Dividend received from associates during the year					

(3) There is no material restriction joint ventures or associates' ability to transfer capital to the Company.**(4)** No excessive loss had been incurred by any joint venture or associate.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IX. FINANCIAL INSTRUMENTS RELATED RISK

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

1. Objective and policies of risk management

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

(1) Market risks*1) Foreign exchange risk*

The Group is mainly exposed to foreign exchange risks in connection with US\$ and HK\$; except for certain subsidiaries of the Company which effect purchases and sales in US\$, other principal operating activities of the Group are settled with RMB. As at 31 December 2017, except for the US\$ balances in assets and liabilities as well as small amount in EUR, HK\$, all balances of assets and liabilities of the Group were denominated in RMB.

The foreign exchange risk arising from assets and liabilities denominated in US\$ may affect the operating results of the Group.

Item	Closing balance	Opening balance
Cash and cash equivalents — US\$	15,391,314.25	38,114,664.20
Cash and cash equivalents — HK\$	601,762.89	779,228.62
Accounts receivable — US\$	1,756,215.77	41,668,947.11
Prepayment — US\$	549,723.72	157,244.66
Other receivables — US\$	21,731,463.16	23,180,223.74
Other receivables — HK\$	240,813.98	238,733.05
Accounts payable — US\$	58,947,516.69	10,451,116.83
Receipts in advance — US\$	2,443.76	55,646.96
Short-term loans — US\$	72,773,936.00	68,322,249.00
Financial liabilities held-for-trading — US\$	—	—

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IX. FINANCIAL INSTRUMENTS RELATED RISK *(continued)*

1. Objective and policies of risk management *(continued)*

(1) Market risks *(continued)*

2) Interest rate risk

The Group's interest rate risk arises from interest bearing liabilities derived from bank loans. Financial liabilities at floating interest rates expose the Group to cash flow interest rate risk. The Group determines the relative ratio of its fixed rate and floating rate contracts based on prevailing market conditions. On 31 December 2017, the Group determined the relative ratio of its fixed rate and floating rate contracts in light of the prevailing market conditions and RMB-denominated loan contracts at fixed rates, amounted to RMB1,249,519,452.62 in aggregate (31 December 2016: RMB1,286,951,441.31), of which RMB denominated loans at floating rate amounted to RMB534,000,000.00 (31 December 2016: RMB315,000,000.00); US\$-denominated loans at floating rate amounted to RMB475,519,452.62 (31 December 2016: RMB473,951,441.31); and RMB-denominated loans at fixed rate amounted to RMB240,000,000.00 (31 December 2016: RMB498,000,000.00).

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

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

3) Price risk

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

(2) Credit risk

On 31 December 2017, the largest credit risk exposure that might induce financial loss of the Group was mainly attributable to contractual counterparty's non-performance of its obligations which could lead to losses in financial assets of the Group and financial guarantee undertaken by the Group, particulars are set out as follows:

The carrying amount of financial assets recognised in the consolidated balance sheet; for the financial instruments measured at fair value, its carrying amount reflects its risk exposure, however, such amount does not represent the maximum risk exposure which changes in line with future changes in fair value.

In order to mitigate credit risk, the Group established a designated department for determining credit limits, approving credit applications and carrying out other monitoring procedures to ensure necessary measures are adopted to recover overdue debts. Besides, the Group reviews the recoverability of individual receivables at each balance sheet date, to ensure that sufficient provisions for bad debts have been made for irrecoverable amounts. As such, the management of the Group believes the credit risk assumed by the Group has been significantly reduced.

The Group places its liquidity in banks with relatively high credit ratings, therefore, the credit risk with respect to liquidity is low.

The Group adopted necessary policies to ensure that sales are made to customers with good credit history. Except the top 5 accounts receivable, the Group has no other significant concentrated credit risk.

The top 5 accounts receivable in aggregate amounted to RMB294,152,694.29.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IX. FINANCIAL INSTRUMENTS RELATED RISK (continued)**1. Objective and policies of risk management** (continued)**(3) Liquidity risk**

Liquidity risk is the risk that the Group is unable to discharge its financial obligations when due. The Group manages its liquidity risk to ensure that it has adequate liquidity to serve the debts as they fall due, thus avoiding unacceptable loss or damage to the reputation of the Group. Analysis on liability structure and maturity is carried out on a regular basis by the Group to ensure adequate liquidity. The management of the Group monitors the utilisation of bank loans to ensure that the borrowing agreements are complied with. Meanwhile, in order to minimize liquidity risk, the Group negotiates with financial institutions to maintain certain facilities.

The Group deems bank loans as its major source of funds. At 31 December 2017, the Group had unutilised bank loan facilities of RMB202,004,870.00 (31 December 2016: RMB169,583,159.09), of which short-term bank loan facilities of RMB202,004,870.00 (31 December 2016: RMB169,583,159.09) was unutilized by the Group.

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

Amount as at 31 December 2017:

Item	Within one year	One to two year	Two to five years	Over five years	Total
Financial assets					
Cash and cash equivalents	327,110,899.44	—	—	—	327,110,899.44
Held-for-trading financial assets	44,935.41	—	—	—	44,935.41
Notes receivable	19,317,780.05	—	—	—	19,317,780.05
Accounts receivable	871,785,171.07	—	—	—	871,785,171.07
Other receivables	667,685,452.22	—	—	—	667,685,452.22
Prepayments	10,569,389.53	—	—	—	10,569,389.53
Financial liabilities					
Short-term loans	1,170,519,452.62	—	—	—	1,170,519,452.62
Notes payable	131,000,000.00	—	—	—	131,000,000.00
Accounts payable	378,278,483.13	—	—	—	378,278,483.13
Receipts in advance	68,051,656.32	—	—	—	68,051,656.32
Other payables	39,357,411.90	—	—	—	39,357,411.90
Dividends payable	1,146,558.33	—	—	—	1,146,558.33
Employee remuneration payables	7,993,073.80	—	—	—	7,993,073.80
Non-current liabilities due within one year	47,626,399.63	—	—	—	47,626,399.63
Long-term loans	—	36,000,000.00	7,000,000.00	—	43,000,000.00
Long-term payables	—	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

IX. FINANCIAL INSTRUMENTS RELATED RISK *(continued)***2. Sensitivity analysis**

The Group adopts sensitivity analysis techniques to analyse the possible effects arising from reasonable and possible changes in risk variables to profit and loss for the current period or to the owners' equity. Since risk variables seldom change on an individual basis, while the correlation among variables significantly affect the ultimate amount subject to the change in a particular risk variable; therefore, the below analysis is based on the assumption that the changes in each variable occurred separately.

(1) Sensitivity analysis on foreign exchange risk

Assumption of foreign exchange risk sensitivity analysis: all overseas operating net investment hedging and cash flow hedging are highly effective.

Based on the above assumption, on the basis that all other variables are held constant, the effects of reasonable changes in exchange rate that may arise on the profit and loss and equity for the period are set out below:

Item	Changes in exchange rate	Year 2017		Year 2016	
		Effect to net profit	Effect to owners' equity	Effect to net profit	Effect to owners' equity
All foreign currencies	5% increase against RMB	30,118,542.19	30,118,542.19	8,471,232.26	8,471,232.26
All foreign currencies	5% decrease against RMB	(30,118,542.19)	(30,118,542.19)	(8,471,232.26)	(8,471,232.26)

(2) Sensitivity analysis on interest rate risk

Sensitivity analysis of interest rate risk is based on the following assumptions:

Changes in market interest rate affect the interest income or expense of financial instruments at variable interest rate;

For fixed rate financial instruments measured at fair value, the changes in market interest rates only affect its interest income or expenses;

The changes in fair value of derivative financial instrument and other financial assets and liabilities were calculated by the discounted cash flow method with the market interest rate at the balance sheet date.

Based on the above assumptions, on the basis that all other variables are held constant, the effect of reasonable changes in interest rate that may arise on the profit and loss and equity for the period after tax are set out below:

Item	Changes in interest rates	Year 2017		Year 2016	
		Effect to net profit	Effect to owners' equity	Effect to net profit	Effect to owners' equity
Loans at floating rate	Increase 1%	(7,050,915.35)	(7,050,915.35)	(6,706,087.24)	(6,706,087.24)
Loans at floating rate	decrease 1%	7,050,915.35	7,050,915.35	6,706,087.24	6,706,087.24

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

X. DISCLOSURE OF FAIR VALUE**1. Assets and liabilities measured at fair value and level of fair value measurement at year end**

Item	Fair value at year end			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Continuously measured at fair value				
1. Investment real estate				
2. Leased buildings		86,960,020.01		86,960,020.01
3. Held for value-added sale land use rights		119,459,288.00		119,459,288.00
Total assets continuously measured at fair value		206,419,308.01		206,419,308.01

2. Valuation method and qualitative and quantitative information of important parameters of continuous and non-continuous level 2 fair value measurement items

The Group's fair value measurement of investment real estate measured at fair value is determined based on valuations made by Shenzhen Guolianghang Asset Appraisal Consultants Limited, an independent third party of no association with the Group. The relevant valuation is determined by referencing recent market prices and capitalised rental income under applicable conditions of similar properties in the same location with similar usage.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS**1. Relationships with related parties****1. Controlling shareholder and ultimate controller***(1) Controlling shareholder and ultimate controller*

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

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

(2) Registered capital of controlling shareholder and its change

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

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

Controlling shareholder	Amount of shareholding (RMB0'000)		Percentage of shareholdings (%)	
	Closing balance	Opening balance	Closing percentage	Beginning percentage
Powerleader Holdings	10,218.45	10,218.45	42.05	42.05

2. Subsidiaries

For details of subsidiaries, please refer to related information in "VIII.1.(1)Structure of the Group" in these notes.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)***1. Relationships with related parties** *(continued)***3. Joint venture and associates**

For detailed information on significant joint ventures and associates of the Company, please refer to the related information in note VIII.2.(1). Information on other joint ventures and associates that have related party transactions with the Company during the year or have balance with the Company due to related party transactions with the Company in the prior periods are set out as below:

Name of joint ventures and associates	Relationship with the Company
Zqgame	Other enterprise under common control of the same controlling shareholder and ultimate controllers
Beijing Haiyun Jiexun	Other related party

4. Other related parties

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**2. Related party transactions****1. Related party transactions regarding the purchase and sale of goods and provision and receipt of services***(1) Purchase of goods/receipt of services*

Related party	Related party transaction	Amount for this year	Amount for last year
G-speed	Agency fee	5,708,830.56	796,912.74
Powerleader Network Security (Shenzhen) Limited	Purchase of goods	2,244,407.41	—
Total		7,953,237.97	796,912.74

(2) Sale of goods/provision of services

Related party	Related party transaction	Amount for this year	Amount for last year
Powerleader Network Security (Shenzhen) Limited	Sale of goods	8,657,048.04	—
Subita	Sale of goods	1,175,311.94	64,888.89
Zqgame	Sale of goods/provision of services	55,336.77	601,137.23
Shenzhen Powerleader Investment Holdings Company Limited	Sale of goods	6,282.05	—
Total		9,893,978.80	666,026.12

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**2. Related party transactions** (continued)**2. Lease with related parties**

(1) As lessor

Name of lessor	Name of lessee	Category of leased asset	Lease income recognised this year	Lease income recognised last year
The Company	Baoteng Internet	Building	1,895,885.76	—
The Company	Zqgame	Building	37,714.29	39,600.00
Total			1,933,600.05	39,600.00

(2) As lessee

Name of lessor	Name of lessee	Category of leased asset	Lease income recognised this year	Lease income recognised last year
Zqgame	The Company	Building	2,435,431.32	2,415,005.18
Total			2,435,431.32	2,415,005.18

3. Guarantee with related parties

Name of guarantor	Secured party	Closing balance	Opening balance
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	622,542,987.86	624,213,930.83
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	315,000,000.00	240,000,000.00
Hong Kong Powerleader, Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	131,976,464.76	164,737,510.48
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	70,000,000.00	—
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Binhai Powerleader	The Company	100,000,000.00	78,000,000.00
Powerleader Holdings, Li Ruijie	The Company	—	180,000,000.00
Zhang Yunxia	Ex-channel	—	—
Shenzhen HTI Finance Security Co., Ltd., Li Ruijie, Powerleader Holdings	The Company	—	20,000,000.00
Powerleader Holdings, Li Ruijie, Zhang Yunxia	Baotong Zhiyuan	10,000,000.00	10,000,000.00
Li Ruijie, Zhang Yunxia	The Company	—	70,000,000.00
Total		1,249,519,452.62	1,386,951,441.31

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**2. Related party transactions** (continued)**3. Guarantee with related parties** (continued)

Details of guarantee:

Name of guarantor	Secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	79,000,000.00	2015-3-26	2020-3-25	NO
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-2-3	2016-2-3	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-2-9	2016-2-9	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	30,000,000.00	2015-7-2	2016-6-12	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-9-21	2016-9-21	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-11	2016-11-11	Yes
Shenzhen HTI Finance Security Co., Ltd., Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-12-9	2016-12-8	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	60,000,000.00	2015-2-16	2016-2-15	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	20,000,000.00	2015-2-27	2016-2-27	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	40,000,000.00	2015-5-22	2016-5-22	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	40,000,000.00	2015-8-18	2016-8-14	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	40,000,000.00	2015-8-21	2016-8-14	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	212,633,419.02	2015-10-21	2016-2-24	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-3-16	2016-3-16	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	10,000,000.00	2015-3-20	2016-3-20	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	10,000,000.00	2015-7-28	2016-7-28	Yes
Powerleader Holdings, Li Ruijie	The Company	40,000,000.00	2015-6-11	2016-6-11	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	75,000,000.00	2015-8-13	2016-8-13	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	25,000,000.00	2015-9-8	2016-9-8	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Binhai Powerleader	The Company	6,000,000.00	2015-6-8	2016-6-7	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Binhai Powerleader	The Company	78,000,000.00	2015-12-2	2016-12-1	Yes
Zhang Yunxia	Ex-channel	28,279,628.00	2015-7-23	2016-3-2	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	39,069,121.42	2015-10-26	2016-3-30	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	3,896,160.00	2015-10-23	2016-1-4	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	63,312,600.00	2015-10-8	2016-3-22	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	8,311,808.00	2015-10-29	2016-1-8	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	50,000,720.00	2015-11-6	2016-3-16	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	51,948,800.00	2015-12-30	2016-3-29	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Baotong Zhiyuan	10,000,000.00	2015-9-12	2016-9-12	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-12	2016-5-12	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-13	2016-5-13	Yes

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**2. Related party transactions** (continued)**3. Guarantee with related parties** (continued)

Details of guarantee: (continued)

Name of guarantor	Secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-17	2016-5-17	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-18	2016-5-18	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	20,000,000.00	2015-7-15	2016-1-15	Yes
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	200,000,000.00	2016-8-10	2017-5-10	Yes
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	8,982,860.04	2016-5-11	2017-5-10	Yes
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	300,231,070.79	2016-5-11	2017-5-10	Yes
Powerleader Holdings, Li Ruijie	The Company	180,000,000.00	2016-6-27	2017-6-27	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	30,000,000.00	2016-9-12	2017-9-11	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	70,000,000.00	2016-8-12	2017-2-12	Yes
Zhang Yunxia, Li Ruijie	The Company	70,000,000.00	2016-12-1	2017-12-1	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	100,000,000.00	2016-11-11	2017-11-11	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	40,000,000.00	2016-8-17	2017-8-17	Yes
Shenzhen HTI Finance Security Co., Ltd., Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2016-12-15	2017-12-15	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Binhai Powerleader	The Company	78,000,000.00	2016-11-22	2017-11-15	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings	Baotong Zhiyuan	10,000,000.00	2016-8-23	2017-10-31	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	14,219,871.88	2016-10-25	2017-3-13	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	22,198,400.00	2016-9-8	2017-9-8	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	45,090,500.00	2016-3-24	2017-3-24	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	55,496,000.00	2016-12-14	2017-12-14	Yes
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	27,732,738.60	2016-5-5	2017-5-5	Yes
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	200,000,000.00	2017-7-14	2018-7-13	NO
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	38,042,961.85	2017-10-26	2018-3-6	NO
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	305,500,026.01	2017-10-9	2018-6-24	NO
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	40,000,000.00	2017-7-25	2018-1-25	NO
Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	70,000,000.00	2017-10-19	2018-5-25	NO
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Binhai Powerleader	The Company	100,000,000.00	2017-11-24	2018-11-23	NO

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**2. Related party transactions** (continued)**3. Guarantee with related parties** (continued)

Details of guarantee: (continued)

Name of guarantor	Secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	100,000,000.00	2017-5-2	2018-5-2	NO
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	80,000,000.00	2017-5-25	2018-5-20	NO
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	20,000,000.00	2017-3-3	2018-3-3	NO
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	20,000,000.00	2017-4-5	2018-3-24	NO
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	20,000,000.00	2017-4-7	2018-4-1	NO
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	10,000,000.00	2017-5-10	2018-4-12	NO
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	25,000,000.00	2017-12-6	2018-12-6	NO
Powerleader Holdings, Zhang Yunxia, Li Ruijie, the Company	Baotong Zhiyuan	10,000,000.00	2017-11-29	2018-11-29	NO
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	16,719,588.28	2017-12-1	2018-2-28	NO
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	39,205,200.00	2017-11-22	2018-2-22	NO
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	50,051,972.00	2017-10-13	2018-3-28	NO
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	25,999,704.48	2017-10-12	2018-3-19	NO
Total		3,832,923,150.37			

4. Asset transfer of related parties

Name of related party	Type of transaction	Amount for the year	Amount for last year
Zqgame	Equity transfer	500,000,000.00	
Total		500,000,000.00	

5. Continuous connected transactions

Connected transactions disclosed on page 88 of the Company's 2017 financial report also constitute connected transactions or continuous connected transactions as defined in Chapter 14A of the GEM Listing Rules of the Stock Exchange:

Name of related party	Type of transaction	Amount for the year	Amount for last year
G-Speed	Agency fee	5,708,830.56	796,912.74
Baoteng Internet	Tenancy	3,791,771.53	
Total		9,500,602.09	796,912.74

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**3. Open credit with related parties****1. Due from related parties**

Item	Related party	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	G-Speed	3,301,000.00	1,320,400.00	3,301,000.00	—
Accounts receivable	Powerleader Network Security	5,897,953.46	562,135.08	489,649.67	—
Accounts receivable	Zqgame	9,900.00	—	103,842.43	—
Accounts receivable	Subita	—	—	6,305,252.60	—
Accounts receivable	Baoteng Internet	366,066.34	—	—	—
Sub-total of accounts receivable		9,574,919.80	1,882,535.08	10,199,744.70	—
Other receivables	Powerleader Network Security Nanjing Powerleader Cloud	7,317,169.51	4,596,572.42	5,596,203.12	—
Other receivables	Computing Technology Limited	5,870,027.32	3,522,016.39	5,870,027.32	—
Other payables	Subita	20,697.31	79.24	—	—
Other payables	Zqgame	245,000,000.00	12,250,000.00	1,777.50	—
Other payables	Li Ruijie	270,967.55	219,484.82	270,904.24	—
Other payables	Sichuan Baoteng	3,356,468.87	543,956.94	2,564,922.62	—
Other payables	G-Speed	37,349,001.73	2,560,000.00	—	—
Sub-total of other receivables		299,184,332.29	23,692,109.81	14,303,834.80	—
Total		308,759,252.09	25,574,644.89	24,503,579.50	—

2. Projects payable

Item	Related party	Closing balance	Opening balance
Accounts payable	Powerleader Network Security	2,986,783.79	360,827.12
Sub-total of accounts payable		2,986,783.79	360,827.12
Other payables	Zqgame	123.30	124,522,805.30
Other payables	G-Speed	24,491,492.17	3,630,133.45
Other payables	Powerleader Network Security	3,375,616.43	5,926,322.66
Other payables	Sichuan Baoteng	—	—
Other payables	Powerleader Investment Holding	—	—
Other payables	Subita	1,772,686.99	1,772,686.99
Sub-total of other payables		29,639,918.89	135,851,948.40
Total		32,626,702.68	136,212,775.52

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**4. Remuneration of directors, supervisors and employees****1. Details of remuneration of directors and supervisors are as follows**

Name	Fee of Directors and supervisors	Salaries, allowances and bonus	Retirement benefits scheme contributions	Total
Executive Directors	1,131,472.51	118,835.79	61,213.01	1,311,521.31
Zhang Yunxia	278,160.00	33,000.00	15,139.74	326,299.74
Dong Weiping	635,314.51	52,835.79	29,280.00	717,430.30
Ma Zhumao (vacated)	217,998.00	33,000.00	16,793.27	267,791.27
Non-executive Directors	150,390.00	6,050.00	—	156,440.00
Li Ruijie	74,190.00	6,050.00	—	80,240.00
Sun Wei (vacated)	15,240.00	—	—	15,240.00
Xu Yueming (vacated +)	60,960.00	—	—	60,960.00
Independent non-executive Directors	182,880.00	—	—	182,880.00
Jiang Baijun	60,960.00	—	—	60,960.00
Chan Shiu Yuen	60,960.00	—	—	60,960.00
Guo Wanda	60,960.00	—	—	60,960.00
Supervisors	445,821.57	44,677.27	33,268.65	523,767.49
Shu Ling	151,860.00	17,800.00	15,013.74	184,673.74
Zhou Liqin	152,161.00	15,000.00	11,085.61	178,246.61
Li Xiaowei	141,800.57	11,877.27	7,169.30	160,847.14

2. The five highest paid individuals of the Group

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

Item	Amount for this year	Amount for last year
Salaries, allowances and bonus	710,938.00	710,928.00
Retirement benefits scheme contributions	24,653.48	17,405.88
Total	735,591.48	728,333.88

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)**4. Remuneration of directors, supervisors and employees** (continued)**3. Remuneration of key management members**

Remuneration of key management members (including amount paid and payable to directors, supervisors and senior management members) are as follows:

Item	Amount for this year	Amount for last year
Salary and allowance	2,791,414.08	2,739,531.51
Costs of social security insurance, housing fund and related pension	135,928.41	113,753.09
Year-end bonus	244,913.06	299,673.47
Total	3,172,255.55	3,152,958.07

5. Loans due from Directors/associated companies of Directors

As at 31 December 2017, the Company had no loans due from Directors/associated companies of Directors.

XII. SHARE-BASED PAYMENT

During the year, the Group's subsidiary Powerleader Computing established four partnerships for the implementation of the employee shareholding scheme, which hold as to 7.69% equity interest in Powerleader Computing through capital contribution of a total amount of RMB36,450,000.

1. General status of share-based payment

Item	Status
Total equity instruments of the Company granted during the year	36,450,000.00
Total equity instruments of the Company exercised during the year	36,450,000.00
Total equity instruments of the Company lapsed during the year	—
Exercise price range of issued and outstanding options of the Company and remaining term on contract at year end	—
Exercise price range of other equity instruments of the Company and remaining term on contract at year end	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XII. SHARE-BASED PAYMENT *(continued)***2 · Status of equity-settled share-based payment**

Item	Status
Method of determining fair value of equity instrument on date of grant	Discounted free cash flow model is used to determine fair value
Basis of confirmation of number of exercisable equity instruments	Share of actual capital contribution
Reason for significant difference between estimation in the year and last year	—
Accumulated amount of equity-settled share-based payment charged to capital reserves	28,227,730.39
Total recognised expenses for equity-settled share-based payment during the year	28,227,730.39

XIII. CONTINGENT EVENTS**(1) Contingent liabilities arising from provision of guarantees to external parties**

As of 31 December 2017, all guarantees provided by the Group to external parties were guarantees for related party. The details are set out in Note X. 2. 3.

- (2)** Other than the contingent events as mentioned above, the Group had no other significant contingent events as of 31 December 2017

XIV. COMMITMENTS**(1) Significant commitments****1) The capital expenditure commitments of the Group as at the end of the year**

Material external investment expenses contracted but not payable

Item	Closing balance	Opening balance
Construction in progress	21,779,805.23	8,674,086.05
External Investment	—	—
Total	21,779,805.23	8,674,086.05

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XIV. COMMITMENTS *(continued)***(1) Significant commitments** *(continued)***2) Lease contracts contracted for and which is or going to be effective**

As at 31 December 2017 (T), the Group, as the lessee, had the following total future minimum lease payable commitments during the following periods under the requirements of non-cancellable operating leases in respect of (among others) plants:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	15,751,905.41	14,741,570.90
One to two years (T+2 year)	12,539,754.69	11,286,311.41
Two to three years (T+3 year)	12,532,014.74	10,126,175.25
Over three years (T+3 year)	150,516,468.68	160,017,375.71
Total	191,340,143.52	196,171,433.27

As at 31 December 2017 (T), the Group, as a lessor, had the following total future minimum lease receivables during the following periods under non-cancellable operating leases in respect of buildings and structures:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	4,272,738.60	5,185,239.60
One to two years (T+2 year)	4,046,086.20	5,074,722.00
Two to three years (T+3 year)	—	5,061,522.00
Over three years (T+3 year)	—	7,274,592.75
Total	8,318,824.80	22,596,076.35

As at 31 December 2017 (T), the Group, as the lessee, had the following total future minimum lease payables during the following periods under the non-cancellable financial leases in respect of machinery and equipment:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	11,882,595.56	20,965,671.72
One to two years (T+2 year)	—	12,040,876.11
Two to three years (T+3 year)	—	—
Total	11,882,595.56	33,006,547.83

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.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XIV. COMMITMENTS *(continued)*

(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 2017.

XV. POST-BALANCE SHEET DATE EVENTS

1. Profits distribution

The Directors of the Company do not recommend dividend payment for the year ended 31 December 2017 (no dividend had been paid for the year ended 31 December 2016).

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

XVI. OTHER IMPORTANT EVENTS

1. Prior period corrections and effect

The Group has no prior period correction during this year.

2. Debt restructuring

The Group has no material debt restructuring during the year (2016: Nil).

3. Asset replacement

The Group has no material asset replacement during the year (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVI. OTHER IMPORTANT EVENTS *(continued)***4. Segment Information**

The operations of the Group are divided into 3 reportable segments based on the structure of its internal organization, management requirements and internal reporting system. The management of the Group regularly assess the operating results of these reportable segments to make decisions about their resources allocation and to assess their performance. The main products and services rendered by each reportable segment are servers, parts, software and others respectively.

The reportable segments of the Group are as follows:

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

Segment reporting information is disclosed in accordance with the accounting policies and measurement standards adopted in reporting to the management by each segment, these measurement basis are consistent with the accounting and measurement basis for the preparation of financial statements.

Transfer price between each segment is measured at the price in third party sales, and indirect expenses attributable to each segment are allocated to each segment in proportion to revenue.

Profit or loss and assets and liabilities of reporting segment

Except for the Company's cash and cash equivalents, buildings and structures, transportation equipment, and office appliances under fixed assets, investment properties, dividends receivable, long-term equity investments, investment income, loans and interest, owners' equity of the Company and administrative expenses, all assets, liabilities and profit or loss are allocated to each operating segment.

Operating results of each segment represent total revenue generated by each segment (including revenue from transactions with external parties and intra-segment transactions) less expenses incurred by each segment; depreciation and amortization and impairment loss of the assets attributable to each segment; net interest expenses on bank deposits and bank loans directly attributable to the segment; net amount after deduction of non-operating income and expenses.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVI. OTHER IMPORTANT EVENTS (continued)**4. Segment Information** (continued)**Reportable segment for the year**

Item	Cloud infrastructure as a service	Cloud module as a service	Software and platform as a service	Unallocated	Elimination	Total
Revenue	1,735,542,408.78	2,300,802,011.06	98,824,504.43	—	-316,287,018.18	3,818,881,906.09
Including: Revenue from transactions	1,731,787,805.89	2,014,264,777.22	72,829,322.98	—	—	3,818,881,906.09
Revenue from intrasegment transactions	3,754,602.89	286,537,233.84	25,995,181.45	—	-316,287,018.18	—
Operating costs	1,529,006,611.35	2,229,610,677.08	57,860,322.08	—	-316,287,018.18	3,500,190,592.33
Expenses for the period	137,360,357.04	77,480,714.13	33,109,911.08	91,858,689.84	-571,172.74	339,238,499.35
Total segment profit (loss)	32,181,151.00	-41,375,622.09	-4,047,847.46	228,708,913.84	15,951,172.74	231,417,768.03
Total assets	3,414,647,065.51	1,508,466,792.77	947,946,089.84	649,277,739.48	-3,268,901,312.28	3,251,436,375.32
Including: Significant impairment loss of individual assets	—	—	—	—	—	—
Total liabilities	1,568,194,812.34	1,008,043,874.57	785,949,713.25	1,120,315,945.82	-2,493,032,342.25	1,989,472,003.73
Supplementary information	—	—	—	—	—	—
Capital expenditure	4,109,604.23	56,868.79	47,862,938.52	134,003,610.15	—	186,033,021.69
Impairment loss recognised for the period	54,729,471.65	15,199,053.15	16,467,435.55	—	—	86,395,960.35
Including: Share of impairment of goodwill	—	—	—	—	—	—
Depreciation and amortisation	30,583,091.59	4,200,288.54	20,685,904.76	14,171,682.53	—	69,640,967.42
Non-cash expenses other than impairment loss, depreciation and amortisation	12,822,291.57	3,895,275.70	66,616.44	—	—	16,784,183.71

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVI. OTHER IMPORTANT EVENTS (continued)**4. Segment Information** (continued)

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

Revenue from transactions with external parties	Amount for this year	Amount for last year
PRC (excluding Hong Kong)	2,602,488,637.23	2,510,766,264.53
Hong Kong	1,100,412,355.98	856,560,036.72
Other overseas regions	115,980,912.88	66,703,910.03
Total	3,818,881,906.09	3,434,030,211.28
Total non-current assets	Amount for this year	Amount for last year
PRC (excluding Hong Kong)	493,198,472.38	745,180,095.10
Hong Kong	332,360,541.78	65,044.23
Other overseas regions	—	—
Total	825,559,014.16	745,245,139.33

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY**1. Accounts receivable****(1) Category of accounts receivable**

Category	Closing balance		Provision for bad debts		Carrying amount
	Carrying amount	Percentage	Amount	Percentage of provision	
	Amount	(%)	Amount	(%)	
Accounts receivable individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	126,909,600.66	100.00	6,580,959.46	5.19	120,328,641.20
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	126,909,600.66	100.00	6,580,959.46	5.19	120,328,641.20

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY
(continued)**1. Accounts receivable** (continued)**(1) Category of accounts receivable** (continued)

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

Most of the domestic sales of the Company are on credit, the credit periods of which range from 30–180 days..

(2) Age analysis of accounts receivable

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

Age	Closing balance	Opening balance
Within 3 months	71,235,757.87	187,972,024.59
3 months to 1 year	13,304,347.14	1,702,560.71
1 to 2 years	28,352,502.92	16,157,741.05
2 to 3 years	5,443,345.10	2,992,994.73
3 to 4 years	1,987,102.41	11,171.52
4 to 5 years	5,585.76	138,544.95
over 5 years	0.00	354,449.67
Net amount	120,328,641.20	209,329,487.22

- 1) There was no accounts receivable that is individually significant for which provision for bad debts were individually made.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY
(continued)**1. Accounts receivable** (continued)**(2) Age analysis of accounts receivable** (continued)

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

Age	Accounts receivable	Closing balance	
		Provision for bad debts	Provision percentage (%)
Within 3 months	67,094,963.87	—	—
3 months to 1 year	13,908,268.57	695,413.43	5.00
1 to 2 years	7,710,168.55	1,542,033.71	20.00
2 to 3 years	1,466,454.75	586,581.90	40.00
3 to 4 years	4,479,021.62	2,687,412.97	60.00
4 to 5 years	27,928.80	22,343.04	80.00
Over 5 years	1,047,174.41	1,047,174.41	100.00
Total	95,733,980.57	6,580,959.46	

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

Item	Closing balance		Provision percentage (%)
	Book balance	Bad debt	
Related party group	31,175,620.09	—	—
Long term strategic cooperation enterprise group	—	—	—
Total	31,175,620.09	—	—

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

Provision for bad debts amounted to RMB3,149,331.33 during the year. Provision for bad debts released amounted to RMB0.00 during the year.

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

Top five accounts receivable grouped by closing balance of attributable debtors for the year amounted to RMB61,051,328.38 in aggregate, accounted for 48.10% of the closing balance of the total accounts receivable, the corresponding provision for bad debts on the total closing balance amounted to RMB170,916.40.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY
(continued)**2. Other receivables****(1) Category of other receivables**

Category	Closing balance		Provision for bad debts		Carrying amount
	Book balance Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Other receivables for which provision for bad debts has been made on group basis by credit risk characteristics	1,941,039,545.68	100.00	16,586,034.28	0.85	1,924,453,511.40
Other receivables individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	1,941,039,545.68	100.00	16,586,034.28		1,924,453,511.40

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY
(continued)**2. Other receivables** (continued)**(1) Category of other receivables** (continued)

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

Age	Closing balance		
	Other receivables	Provision for bad debts	Provision percentage (%)
Within 3 months	165,152,751.37	—	—
3 months to 1 year	245,973,480.36	12,298,674.02	5.00
1 to 2 years	2,525,172.95	505,034.59	20.00
2 to 3 years	58.40	23.36	40.00
3 to 4 years	5,885,316.68	3,531,190.01	60.00
4 to 5 years	177,946.94	142,357.55	80.00
Over 5 years	67,548.27	67,548.27	100.00
Total	419,782,274.97	16,544,827.80	—

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

Name of group	Closing balance		
	Other receivables	Other receivables	Other receivables
Related party group	1,499,293,121.96	—	—
Deposit group	17,991,356.59	—	—
Long term strategic cooperation enterprise group	3,972,792.16	41,206.48	1.04
Total	1,521,257,270.71	41,206.48	—

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

Provision for bad debts amounted to RMB16,544,827.80 during the year. Provision for bad debts released amounted to RMB301,196.18 during the year.

(3) Category of other receivables by nature

Nature	Closing balance	Opening balance
Individual current account	2,501,304.89	7,081,642.85
Entities current account	398,301,430.67	199,693,903.41
Related parties current account	1,540,236,810.12	1,043,019,232.81
Total	1,941,039,545.68	1,249,794,779.07

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY
(continued)**2. Other receivables (continued)****(4) Information on top five other receivables by closing balance of recovery of debtors**

Name of entity	Nature	Closing balance	Age	Percentage to total closing balance of other receivables (%)	Closing balance of provision for bad debts
CT.INTERNATIONAL(HK)LTD	Current account	151,448,647.21	Within three months	7.87	—
Shenzhen Zqgame Interactive Network Co., Limited	Related party	245,000,000.00	Three to 12 months	12.73	12,250,000.00
INTEL	Current account	4,201,557.96	Within 3 months	0.22	—
International Far Eastern Leasing Co., Ltd	Collateral	7,142,857.00	2-3 years	0.37	—
Shenzhen Federation of Industry & Commerce	Collateral	6,000,000.00	4-5 years	0.31	—
Total		413,793,062.17		21.50	—

3. Long-term equity investments**(1) Category of long-term equity investments**

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investment in subsidiaries	93,753,750.00	818,607.52	92,935,142.48	110,903,750.00	818,607.52	110,085,142.48
Investment in associated companies and joint ventures	131,924,627.85	—	131,924,627.85	182,749,190.75	20,231,507.72	162,517,683.03
Total	225,678,377.85	818,607.52	224,859,770.33	293,652,940.75	21,050,115.24	272,602,825.51

(2) Investment in subsidiaries

Investee	Opening balance	Increase during the year	Decrease during the year	Closing balance	Provision for impairment during the year	Closing balance for impairment provision
Shenzhen Powerleader Computing System Limited	11,475,000.00	—	7,650,000.00	3,825,000.00	—	—
Shenzhen Baoteng Internet Technology Limited	9,500,000.00	—	9,500,000.00	—	—	—
Shenzhen Powerleader Property Development Limited	495,000.00	—	—	495,000.00	—	818,607.52
Shenzhen Baotong Zhiyuan Technology Limited	10,080,000.00	—	—	10,080,000.00	—	—
Shenzhen Powerleader Cloud Computing Research Institute Limited	2,000,000.00	—	—	2,000,000.00	—	—
Guangzhou Baoyun Information Technology Co., Ltd.	10,000,000.00	—	—	10,000,000.00	—	—
Powerleader Science & Technology (HK) Limited	67,353,750.00	—	—	67,353,750.00	—	—
Total	110,903,750.00	—	17,150,000.00	93,753,750.00	—	818,607.52

NOTES TO THE FINANCIAL STATEMENTS

1 January 2017 to 31 December 2017

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

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY
(continued)**3. Long-term equity investments (continued)****(3) Investment in associated companies and joint ventures**

Investee	Opening balance	Additional investment	Reduction in investment	Increase/decrease during the year					Distributable cash dividend or profit declared	Impairment provision	Others	Closing balance	Closing balance for impairment provision
				Investment gains or losses recognized by equity method	Adjustment in other comprehensive income	Other changes in equity							
I. Associated company	—	—	—	—	—	—	—	—	—	—	—	—	—
Zqgame	144,748,771.68	—	—	7,665,211.10	(38,305,087.99)	463,216.50	—	—	—	—	114,572,111.29	—	—
Beijing Haiyun Jixun	11,636,600.15	—	—	(1,062,219.06)	6,778,135.47	—	—	—	—	—	17,352,516.56	—	—
Sichuan Baoteng	6,132,311.20	—	6,132,311.20	—	—	—	—	—	—	—	—	—	—
Total	162,517,683.03	—	6,132,311.20	6,602,992.04	(31,526,952.52)	463,216.50	—	—	—	—	131,924,627.85	—	—

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

4. Operating revenue and cost of operation

Item	Amount for this year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal businesses	356,922,208.01	350,243,327.62	480,882,700.41	460,573,375.27
Other businesses	16,827,978.05	264,150.94	5,248,931.85	1,996,116.92
Total	373,750,186.06	350,507,478.56	486,131,632.26	462,569,492.19

5. Gain on investments

Item	Amount for this year	Amount for last year
Gain on long-term equity investments accounted for using equity method	6,602,992.04	(11,194,241.38)
Gain on investment on disposal of long-term equity investments	313,003,257.50	15,473,929.46
Gain on investment on held available-for-sale financial assets	300,917.08	—
Gain on investment on disposal of available-for-sale financial assets	660,437.06	—
Gain on investment on financial products	—	—
Total	320,567,603.68	4,279,688.08

XVIII. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for publication by the Board of Directors of the Company on 29 March 2018.

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

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

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

Item	Amount for this year	Explanation
Gain on disposal of non-current assets	26,391.12	
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	—	
Government grants credited to profit for the period	12,358,000.70	
Funds-use income received by non-financial enterprises and credited to the profit or loss for the period		
Gains derived from excess of the attributable fair value of net identifiable assets of the investee over the cost of investment of acquisition of subsidiaries, associates and joint venture	1,407,896.04	
Gain or loss on exchange of non-monetary assets	—	
Gain or loss on investment on trust or asset under management by third party	—	
Assets impairment losses provided for due to force majeure such as nature disasters	—	
Gain or loss on debts restructuring	—	
Re-organisation expenses	—	
Profit or loss in excess of attributable fair value arising from transactions with apparently unfair price	—	
Profit or loss for the period of the subsidiary formed under business combination under common control from the beginning of the period to date of combination	—	
Profit or loss on contingencies outside the normal course of business	—	
Profit or loss arising from fair value change in financial assets held-for-trading and financial liabilities held-for-trading; and investment income from disposal of financial assets held for trading, financial liabilities held for trading and available for sale financial assets, except for effective hedging operations related to the normal course of operations of the company	313,964,611.64	
Reversal of provision for impairment for accounts receivables which was individually tested for impairment	—	
Profit or loss on loans on trust	—	
Profit or loss arising from changes in fair value of investment properties measured subsequently at fair value	5,713,805.00	
Effect of one-off adjustments to profit or loss for the period made in accordance with the requirements of the tax and accounting laws and regulations	—	
Custodian fee for entrusted operations	—	
Non-operating income and expenses other than the above items	(550,238.20)	
Other profit and loss items meet the definition of non-recurring	—	
Sub-total	332,920,466.30	
Effect on income tax	(49,663,984.31)	
Effect on minority interest (after tax)		
Total	283,256,481.99	

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

2. RETURNS ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the requirements of "Compilation Rules for Information Disclosures by Listed Companies No. 9 — Calculations and disclosures for the return on net assets and earnings per share" (as amended in 2010) issued by the CSRC, the weighted average returns on net assets, basic earnings per share and diluted earnings per share of the Group for the year 2017 are as follows:

Profit for the reporting period	Weighted average returns on net assets (%)		Earnings per share			
	2017	2016	Basic earnings per share		Diluted earnings per share	
	2017	2016	2017	2016	2017	2016
Net profit attributable to the shareholders of the parent	22.56	4.14	0.9010	0.1438	0.9010	0.1438
Net profit attributable to the shareholders of the parent (excluding non-recurring profit and loss)	-6.63	2.85	-0.2647	0.0988	-0.2647	0.0988

Powerleader Science & Technology Group Limited
29 March 2018