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2013
ANNUAL REPORT



宝德
PowerLeader

Powerleader Science & Technology Group Limited*

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

Stock Code : 8236

* For identification purposes only

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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 Growth Enterprise Market 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.

A bald eagle is shown in flight, wings spread, against a blue sky with white clouds. The eagle is positioned in the upper left quadrant. Below it, a stylized globe is depicted with white circuitry lines and nodes, suggesting a global network or digital theme. The overall color palette is light blue and white.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Yunxia (*Chairman*)
Dong Weiping (*President*)
Ma Zhumao (*Vice President*)

NON-EXECUTIVE DIRECTORS

Li Ruijie (*Vice Chairman*)
Sun Wei
Li Donglei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Shiu Yuen Sammy
Guo Wanda
Jiang Baijun

SUPERVISORS

Shu Ling
Chen Zhenzhi
Li Xiaowei

COMPANY SECRETARY

Xu Yueming

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

AUTHORISED REPRESENTATIVES

Dong Weiping
Xu Yueming

STOCK CODE

08236 (H Share)

AUDITOR

ShineWing CPA (Special General Partnership)

LEGAL ADVISOR

Woo Kwan Lee & Lo (with respect to Hong Kong laws)

PRINCIPAL BANKERS

Bank of China
Industrial Bank Co., Ltd.
Construction Bank

HONG KONG H SHARE TRANSFER OFFICE

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Hong Kong

FINANCIAL SUMMARY

RESULTS	Year ended 31 December				
	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Total Revenue	1,560,678	1,750,773	1,714,837	1,114,336	807,803
Gross Profit	184,319	220,777	190,442	120,002	86,308
Gross Profit Margin	11.81%	12.61%	11.11%	10.77%	10.68%
Profit attributable to shareholders of the Company	50,224	78,743	74,256	130,697	27,550

Financial Position	As at 31 December				
	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Total assets	1,765,429	1,461,978	1,494,106	1,462,330	1,159,066
Total liabilities	1,017,741	755,928	854,599	917,451	749,737
Minority Interests	465	158	211	21,015	15,701
Equity attributable to shareholders of the Company	747,223	705,892	639,296	523,864	393,628



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Powerleader Science & Technology Group Limited (hereinafter referred to as "the Company"), I am pleased to present the results of the Company and its subsidiaries (hereinafter referred to as "the Group") for the year ended 31 December 2013.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2013, the Group's operating income was RMB1,560,677,930, representing a decrease of approximately 10.86% when compared to the operating income of RMB1,750,772,575 for the year ended 31 December 2012. Audited profit attributable to shareholders amounted to RMB50,223,722, representing a decrease of approximately 36.22% when compared to RMB78,742,986 for the year ended 31 December 2012.

RESULTS REVIEW

In 2013, against the backdrop of greater complications of the global economic situation, the uncertainties over the domestic economic situation and a slowdown in the growth of demand for IT equipment procurement across all the major sectors, the Company experienced some extent of decline in both operating income and net operating profit this year.

Cloud Infrastructure as a Service (IaaS) — providing cloud server and cloud storage related equipment as well as their related solutions

In 2013, China's cloud computing market continued to record steady growth. Robust demands for cloud infrastructure asserted the maintenance of a relatively rapid growth for cloud server and cloud storage related equipment as well as their related solutions. The "PRISM-gate" case had shocked the world, and information security had been put under the spotlight of various industries in many countries. The government of and enterprises in China had reached a common consensus in the materialization of "autonomous controllable core equipments and domestic alternatives" as an inevitable trend for the development of industries. Industries such as the Internet of Things, the mobile Internet and cloud computing were developing at a rapid pace. Demands for the applications of massive data remain vigorous and stimulated the sustained growth in demands for cloud server. Operating income from IaaS business increased by 16.67% for the year.

In 2013, the Company continued to further expand in sectors, including government, education, military, power generation, Internet, telecommunications and finance, and maintained steady growth. The Company's cloud computing solutions, such as government affairs cloud, education cloud, enterprise private cloud, had been widely applied. At the same time, the Company was actively involved in numerous projects, like Intelligent City, Safe City, intelligent transportation, broadcasting and IPTV, and achieved remarkable results.

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

In 2013, the segment recorded an overall operating income decline of 18.66% over the previous year, as competition in China's agency distribution of cloud computing equipment related components sector had intensified. The Company leveraged on its years of experience in autonomous R&D and design of cloud computing equipment related components in expanding aggressively in businesses such as auxiliary products for cloud servers, modem cards, storage products, Internet products and all-in-one PC. We complemented the operating strategies and business models of our suppliers with our rich products and resources. With a customer-centred operation philosophy of enthusiasm and determination, we perfected the relevant cloud computing value-added services to better meet the one-stop purchase demand from our partners. We endeavoured to provide customers with a more comprehensive range of efficient solutions.

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

Based on our software development technology and experience over the years, the Company continued its relentless efforts in aggressive expansion and R&D to perfect cloud computing technology related software and provide customers with a multi-structural cloud computing service, which is available-on-demand, pay-per-use and under centralized management. As customers' demand for more personalized and diverse applications of cloud computing was met, the service had become hugely popular and registered wide application among major user sectors such as official bodies, large enterprises and small and medium enterprises.

R&D achievements and intellectual property

During the year, the Company escalated its efforts in R&D and perfected its autonomous innovation system gradually. The development in its autonomous innovation capacity formed a strong support to the rapid development of the Company. While Powerleader's safe and controllable 2 quad server and high-performance 4 quad server had passed the inspection for technological achievements, a groundbreaking high-density 8 module rack server with unrivalled performance and security was also launched in China. Moreover, building on the continued R&D efforts over the years, the Company enriched its intellectual properties and had accumulated 49 patents, 38 proprietary software copyrights and 13 trademarks.

FUTURE DEVELOPMENT STRATEGY

The Company has put forward a clear strategic positioning to grow into "China's leading cloud computing solutions provider with the capability of autonomous innovation". Over the years, edges were maintained in terms of solid technology, competent R&D team, strict management system, wide sales channels and quality customer service. On the basis of the five key business sectors engaged by cloud computing solutions and services provider: namely, Cloud Infrastructure as a Service (IaaS), Cloud Module as a Service (MaaS), Software as a Service (SaaS), Platform as a Service (PaaS), Client as a Service (CaaS), we provide a comprehensive range of cloud computing solutions and services.

Firstly, we vigorously develop Cloud Infrastructure as a Service (IaaS) and enrich our autonomous innovation capacity. Optimisation continues for products and solutions such as mid-to-high-end cloud servers, cloud storage, HPC and all-in-one PC for bulk data. Overall solution capacity for enterprise private cloud and public cloud will be strengthened so as to provide customers with direct, effective, flexible, expandable, safe and secure pay-per-use cloud services. The Company will also proactively participate in cloud computing infrastructure construction projects such as Intelligent City, E-Government Affairs, Secure City, Intelligent Transportation, Broadband China and 4G.

Secondly, we continue to expand Cloud Module as a Service (MaaS). With our brand advantage as the cornerstone of our core competitiveness, we will strengthen the building of sales system and raise the standard for sales management. Further cooperation with suppliers plays a crucial role in the expansion of product portfolio for agency distribution. A timely and sufficient component support and professional technical support will be provided to our channel partners and industry customers in an attempt to attract additional channel partners. Such efforts will assert our position as a leading supplier of cloud computing related components in the PRC.

Thirdly, we will accelerate the development of Software and Platform as a Service (SaaS & PaaS). With a focus on demands for the application of cloud computing and bulk data, we will provide quality, diverse and tailor-made software services to our customers.

Riding on the global development trend of cloud computing, the Company will seize the growth opportunities in the development of cloud computing, bulk data and mobile Internet, with a view to consolidating our core competitive strengths in the fields of IaaS, MaaS and SaaS and PaaS. Looking forward, the Company will continue to engage in autonomous innovation, cooperation and strategic investments. Our advantages in technology, resources and market attributed to our cloud infrastructure will be fully utilized in exploiting the market potential of cloud module and fuel the development of software and platform and catalyze the integration of advantageous resources in up-stream and down-stream of industrial chain. As we develop an all-round and professional integrated solution capacity that covers the entire cloud computing industry chain, we can maintain our leading position in the cloud computing industry in the PRC.

APPRECIATION

Finally, on behalf of the Board of Directors, I would like to express heartfelt gratitude to 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 diligence and dedication. In 2014, the Group will capture every opportunity to pursue for and strive for promising returns to its shareholders.

Powerleader Science & Technology Group Limited
Zhang Yunxia
Chairman

Shenzhen, the PRC

28 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 December 2013, the Group recorded an operating income of RMB1,560,677,930 and profit attributable to owners of the Company of RMB50,223,722 as compared to operating income and profit attributable to owners of RMB1,750,772,575 and RMB78,742,986 for the year ended 31 December 2012, representing an decrease of 10.86% and 36.22% respectively. Earning per share was RMB0.2067 (2012: RMB0.3240) and net assets per share of the Company was RMB3.07 (2012: RMB2.90).

Operating income

The operating income of the Group for the year ended 31 December 2013 and the comparative figures of 2012 as classified by business segments as follows:

	2013		2012		Change %
	RMB	%	RMB	%	
Income from the principal business					
Cloud Infrastructure as a Service (IaaS)	421,329,862	27.00	361,134,365	20.63	16.67
Cloud Module as a Service (MaaS)	1,117,986,407	71.63	1,374,472,376	78.51	(18.66)
Software and Platform as a Service(SaaS & PaaS)	13,740,162	0.88	5,168,706	0.29	165.83
Income from other business	7,621,499	0.49	9,997,128	0.57	(23.76)
Total	1,560,677,930	100	1,750,772,575	100	(10.86)

The Group's operating income was mainly derived from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) business segments. With reference to the table above, for the year ended 31 December 2013, operating income from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) business segments amounted to RMB421,329,862 and RMB1,117,986,407 respectively (2012: RMB361,134,365 and RMB1,374,472,376), accounting for 27% and 71.63% (2012: 20.63% and 78.51% of total operating income respectively). Operating income from Cloud Infrastructure as a Service (IaaS) business segment increased by 16.67%, which was mainly attributable to the optimization of our product mix during the year. On the other hand, operating income from Cloud Module as a Service (MaaS) business segment dropped by 18.66% under keener competition during the year in this industry. Further details of business analysis are set out in the "Business Review" section below.

Gross Profit

	Operating income		Gross profit		Gross profit margin	
	2013 RMB	2012 RMB	2013 RMB	2012 RMB	2013 %	2012 %
Income from the principal business						
Cloud Infrastructure as a Service (IaaS)	421,329,862	361,134,365	105,313,561	97,259,266	25.00	26.93
Cloud Module as a Service (MaaS)	1,117,986,407	1,374,472,376	68,111,605	118,884,364	6.09	8.65
Software and Platform as a Service (SaaS & PaaS)	13,740,162	5,168,706	7,471,503	210,562	54.38	4.07
Income from other business	7,621,499	9,997,128	3,422,245	4,423,259	44.90	44.25
Total	1,560,677,930	1,750,772,575	184,318,914	220,777,451	11.81	12.61

The Group's gross profit decreased from RMB220,777,451 for the year ended 31 December 2012 to RMB184,318,914 for the year ended 31 December 2013, representing a decrease of 16.51%.

The Group's overall gross profit margin slipped from 12.61% for the year ended 31 December 2012 to 11.81% for the year ended 31 December 2013. Gross profit of both Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) decreased when compared with those in 2012. These were mainly attributable to the surge in labour cost and manufacturing cost of cloud server and cloud storage related equipment, keener market competition in Cloud Module as a Service (MaaS) business segment, and the industry-wide decrease in gross profit. Further details of business analysis are set out in the "Business Review" section below.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales expenses

Sales expenses mainly comprised of, amongst others, salaries of sales personnel, marketing expenses, rentals and transportation cost. For the year ended 31 December 2013, sales expenses in total were RMB42,666,930, compared to the total sales expenses of RMB39,637,289 for the year ended 31 December 2012, representing an increase of 7.64% from last year.

Administrative expenses

Administrative expenses mainly comprised of, amongst others, amortization of intangible assets, salaries of management personnel, depreciation, research and development cost. For the year ended 31 December 2013, administrative expenses in total were RMB54,415,289, compared to the total administrative expenses of RMB60,018,965 for the year ended 31 December 2012, representing a decrease of 9.34% from last year.

Finance costs

Finance costs mainly comprised of, amongst others, interest expenses, exchange gain or loss, and handling fees. For the year ended 31 December 2013, finance costs in total were RMB45,344,781, compared to the total finance costs of RMB49,189,956 for the year ended 31 December 2012, representing a decrease of 7.82% from last year.

Assets, Liabilities and Shareholders' Equity

As at 31 December 2013, current assets of the Group amounted to RMB1,183,769,228 (2012: RMB982,561,638), which mainly comprised of monetary assets of RMB370,444,416 (2012: RMB241,923,343), trade and bills receivables of RMB415,771,258 (2012: RMB388,763,141), inventories of RMB190,991,434 (2012: RMB175,100,856). Non-current assets amounted to RMB581,659,351 (2012: RMB479,416,851), which mainly comprised of long-term equity investment of RMB204,433,276 (2012: RMB154,667,011), fixed assets of RMB201,220,889 (2012: RMB 222,952,104), intangible assets and development costs of RMB133,876,469 (2012: RMB101,662,591). Total assets were RMB1,765,428,579 (2012: RMB1,461,978,490).

As at 31 December 2013, the Group's current liabilities mainly comprised of short-term borrowings of RMB552,801,860 (2012: RMB542,895,109) and trade payables of RMB165,464,647 (2012: RMB148,363,193). Non-current liabilities mainly included Long-term borrowings of RMB140,000,000 (2012: RMB0). Total liabilities were RMB1,017,740,589 (2012: RMB755,928,259).

As at 31 December 2013, the Group's equity attributable to the shareholders of the parent was RMB747,223,271 (2012: RMB705,892,160).

Changes in share capital

Share consolidation on the basis of every ten shares of RMB0.10 each consolidated into one Consolidated Share of RMB1.00 each was approved by a resolution at the EGM of held on 11 November 2013. Based on the number of issued shares of the Company, the registered share capital of the Company will comprise 182,250,000 Consolidated Domestic Shares and 60,750,000 Consolidated H Shares of RMB 1.00 each, all of which are in issue and fully paid. Articles Amendment in respect of this resolution was approved by the Economy, Trade and Information Commission of Shenzhen Municipality and the registration of such changes to the Market Supervision Administration Bureau of Shenzhen Municipality completed on 27 December 2013.

Significant investment, acquisition and disposal of subsidiaries and associates

On 1 March 2013, the Company entered into the share transfer agreement to sell 18% equity interests in 深圳市深越聯合投資有限公司 (Shenzhen Shenyue Joint Investment Co., Ltd.*) to 深圳市宝德投資控股有限公司 (Powerleader Investment Holdings Company Limited*, "Powerleader Holdings") for a consideration of RMB20 million. Upon the completion, the Company no longer has equity interest in 深圳市深越聯合投資有限公司 (Shenzhen Shenyue Joint Investment Co., Ltd.*). This transaction constituted a discloseable transaction of the Company, details of which are set out in the announcement of the Company dated 1 March 2013.

In October 2013, the Company entered into a capital increase agreement, pursuant to which, the Company increased its shareholding in its 25%-owned subsidiary 北京海雲捷迅科技有限公司 (Beijing Haiyun Jiexun Technology Co., LTD.*) by capital contribution of RMB15 million.

In the same month, the Company entered into a capital increase agreement, pursuant to which, the Company increased its shareholding in its 49%-owned subsidiary 四川寶騰互聯科技有限公司 (Sichuan Baoteng Internet Technology Co., LTD.) by capital contribution of RMB42 million.

In December 2013, the Company invested RMB10 million to incorporate its 100%-owned subsidiary 廣州寶雲信息科技有限公司.



MANAGEMENT DISCUSSION AND ANALYSIS

Currency Risk

The Company and some of its subsidiaries conduct sales and procurement in foreign currencies, which expose the Group to foreign exchange risks. In 2013, approximately 62% (2012: 67%) of the Group's turnover was denominated in currencies other than the Group entities' functional currency, and approximately 21% (2012: 19%) of the cost of the Group was denominated in the Group entities' functional currency.

Gearing Ratio

As at 31 December 2013, the gearing ratio of the Group was approximately 57.65% (2012: 51.71%), which is the percentage calculated by dividing Group's total liabilities with total assets. The Group's gearing ratio surged by 5.94 percentage points compared to last year.

BUSINESS REVIEW

Cloud Infrastructure as a Service (IaaS) — providing cloud server and cloud storage related equipment as well as their related solutions

In 2013, China's cloud computing market continued to maintain steady growth. The robust demand for cloud infrastructure construction drove the cloud server and cloud storage related equipment and their related solutions to grow in a rapid pace. The world-wide controversy arising from the PRISM incident raised concerns about information security across different industries around the worldwide. It is a general consensus for Chinese government and private enterprises and an inevitable trend for the development of industry to materialize "Domestically-made Autonomous Controllable Core Equipments Alternatives" (核心裝備自主可控, 國產化替代). The strong demand for bulk data usage fuelled by fast development of industries such as Internet of Things, mobile Internet, cloud computing helped sustain the growth of the demand for cloud server.

On front of R&D, armed with autonomous innovation, the Company launched various cloud servers, cloud storage products and their related solutions with autonomous intellectual property rights and strong competitiveness. The Company carried out the fully-autonomous R&D of mid-to-high end cloud server products such as PR4860R, PR2730R and stepped up efforts on promoting quad-route cloud server PR4840R, which has received vigorous market response. For application with bulk data, R&D was focused on bulk data appliance, cloud servers, and construction of bulk data processing models to provide integrated solutions with software and hardware based on bulk data to industries of security and taxation. The Company was recognized as a "Post-doctoral Innovation Trial Centre" by the Shenzhen Municipality.

On front of sales system, we promoted the cloud server business as the strategic development core of cloud computing infrastructure and service of the Group to optimize sales and management system of large areas, rationalize manpower configuration by expanding the size of our sales force in key areas. We also strengthened industry sales management and stepped up manpower building for industry expansion team. Meanwhile, we arranged our sales channels in key industries over military machineries, energy, telecommunication, finance and government while actively expanding into other emerging market segments. In relation to the enhancement of our capability in cloud computing solutions, we did so by implementing solutions in the fields of HPC, cloud computing, bulk data and intelligent cities through the autonomous R&D and integration of resources of industry chain of cloud computing. The Company established a sales system on "Solution-based interconnection between regional sales and industry" (以解決方案為依託, 區域銷售與行業銷售縱橫互聯).

On front of marketing promotion, we made great efforts on our autonomous R&D of quad-route cloud server, cloud computing solutions and promoting our newly upgraded cloud server products and solutions with remarkable success. In addition to conventional promotion platforms such as advertisement, public relation and marketing activities, we extended marketing efforts via new means of media platforms such as Weibo and WeChat, thereby lifting up the brand visibility and influence of Powerleader.

In 2013, the Company continued to further expand in sectors including government, education, military machineries, power generation, Internet, telecommunication and finance. We maintained steady growth in industry sales. Our computing solutions for government affairs cloud, education cloud and private corporate sector cloud had had wide application in various regions. At the same time, we were actively involved in specialized construction cases including intelligent cities, safe cities, intelligent transportation and broadcasting IPTV which reaped notable achievements. We continued to consolidate our position in security monitoring industry and demonstrated in full range of the unique advantages of our products and solutions to business partners in order to start a new glorious chapter in security monitoring industry.

Honours:

In January 2013, the Group received the "Award of Special Contribution by Private Sector in Guangdong Province";

MANAGEMENT DISCUSSION AND ANALYSIS

In January 2013, the Group was recognized as “Post-doctoral Innovation Trial Centre”;

In February 2013, Powerleader’s PR2015RS won the “2012–2013 Product Innovation Award of the Year in China Cloud Computing Storage Product Market”;

In February 2013, the Group’s 1st phase project of the cloud computing data centre was awarded as “Key Project of Longhua New Zone 2013”;

In April 2013, the Group was granted the right to use the “China Top Brand of Guangdong” mark;

In June 2013, Powerleader Software was listed as the Top 50 Enterprises in High-tech and Strategic Emerging Industries in Longhua New Zone in 2012;

In June 2013, the Group was awarded “Key Enterprise in Strategic and Emerging Industry in Guangdong Province”;

In September 2013, Powerleader’s PR2012RS and PR2015RS were accredited as “China Energy-saving Products”;

In September 2013, Powerleader’s PR2310R, PR2510R, PR2710R and PR2850N was accredited as “China Energy-saving Products”;

In September 2013, Powerleader Technology was recognized as a “Key Private Enterprise with Enhanced Government Credit Qualified for Corporate Mutual Insurance in Shenzhen”;

In September 2013, the Group was awarded the “Cloud Computing Innovative Application Prize” 2013;

In October 2013, the Group was accredited as the expert consultant in the area of the video surveillance storage device of the Network Security Expert Committee of China;

In October 2013, registration was given to the research results on safe and controlled dual server of the Group as a technological achievement in Shenzhen;

In October 2013, registration was given to the Group’s efficient quad-route server research results as a technological achievement of Shenzhen Municipality;

In November 2013, the Group received “The Best Solution of Intelligent City in Asia Pacific Wireless Communication Conference 2013” award;

In November 2013, the Group’s “Safe City” product for the Sichuan province’s city Mianyang was awarded “The Best Product of 2013 China City Informatization Development Conference”;

In December 2013, Powerleader PR4840R received the “Zhongguancun Recommended Product Award 2013”.

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

In 2013, the Cloud Module as a Service (MaaS) business segment recorded a decline in operating income of 18.66% over the previous year, as competition in China’s agency distribution of cloud computing equipment related components sector had intensified. Capitalizing on the experience in the autonomous R&D and design of cloud computing equipment related components, the Company gave continued and aggressive efforts on the expansion of business in areas of cloud server accessories, network cards, storage products, Internet products and all-in-one computer. In line with the business strategy and business mode of suppliers, we were committed to our business philosophy of “customers come before strong growth” by integrating our wide range of products and resources to improve the relevant value-added cloud computing services, thus better fostering the one-stop purchase demand from our partners. We endeavored to provide customers with a more comprehensive range of efficient solutions.

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

Based on our software development technology and experience over the years, the Company continued to take initiative in expanding the business and step up R&D efforts to perfect cloud computing technology related software and platform, thus providing customers with a multi-structured cloud computing service with immediate availability, pay-per-use and unified management. It met the demand for more personalized and diversified cloud application of customers, and further contributed to popularity and application in wide range of user groups such as government institutions, big enterprises, SM enterprises.



MANAGEMENT DISCUSSION AND ANALYSIS

The Company strived to step up investment in R&D of cloud computing. Solutions and services were launched and put into commercial operation successfully in respect of cloud computing, cloud storage and information centers. In order to cope with new challenges and opportunities emerged in the cloud computing market, we abided by the guidelines of “optimizing foundation, enhancing services, integrating resources, promoting application” to foster a more open and convenient application environment for cloud computing, which was mainly reflected in the following aspects:

Powerleader cloud platform

Powerleader cloud platform integrates computing, storage and network resources and minimizes hardware purchasing, transportation and maintenance costs, thereby providing customers with cloud services that are simple and efficient, safe and stable, with flexible scalability and pay-per-use features. During the year, in order to provide more and better services for customers, greater improvement and modifications had been made for Powerleader cloud platform, which was mainly reflected in the following aspects: cloud resources monitoring and management, cloud safety analysis and deployment, user centre control, improvement for cloud storage, optimization of the snapshot function etc. Moreover, Powerleader cloud platform had undergone successful operation in mobile games and construction industries and attained high recognition from customers.

Cloud hosting

As the core product in Powerleader cloud platform, cloud hosting is based on technological virtualization which creates several virtual hosts separately in a cluster of physical computers. Each host can run separate operating system and the way of management is the same as that of a physical computer. In the cluster of cloud hosting, there is a mirroring of cloud hosting in each host so that the safety and stability of the virtual host is substantially improved. During the year, the Group provided lease of hosting services for customers based on the cloud computing model, with the features of use-per-demand and pay-per-use. It greatly reduced the costs of computing acquired by customers and simplified the management process of cloud hosting.

Accelerated cloud platform

Accelerated cloud platform gradually engages the process of “cloud computerization” for node acceleration, which uses a large number of cloud servers for node acceleration and establishes several groups. These groups are operated under load equalization so that there are sufficient allocation and utilization of resources, which greatly improves users’ online experience with high level of applicability, stability, safety, physical strength and speed.

Data centres

With rising application of information technology in society, data centres play an increasingly important role in the cloud computing industry. In order to cater for the trends of market development, the Company initially planned to set up data centres in three cities namely, Shenzhen, Guangzhou and Chengdu, to build a solid foundation for the thriving business in future. With the prolonged favorable industry development and state policies, Powerleader Data Centre will keep closer ties with its cooperation partners and operators. It placed great emphasis on building service system in a way that would generate a data centre environment of high quality, compact and energy-saving with tailor made, modulized and highly scalable service mode.

Bank financing and capital management

In 2013, facing a stringent financial environment, with respect to bank financing, the Group stepped up efforts to broaden financing channels, improved financing structure and enhanced financing levels. While in respect of capital management, it optimized debt structure, reduced financing costs and realized efficient capital utilization. The above measures during the year had helped in aversion of potential risks and gave protection for normal development of respective businesses.

GOVERNMENT SUPPORT

In 2013, the Company took part proactively in responding to the policies unveiled by the government in relation to cloud computing industry strategy. We continued to improve the R&D of new generation cloud computing infrastructure with an emphasis on cloud server software and hardware and cloud management platform through flexible means of self-innovation, joint R&D and absorption and migration. We gained high recognition from the government on the above effort. In external research cooperation, we continued to tie up scientific and technological cooperative relationships with universities such as East China University of Science, National University of Defense Technology and scientific research institutions to jointly develop advanced technology and foster skillful talents.

In 2013, the Group received a number of highly influential government subsidies, which are detailed as follows:

In January 2013, the Group’s “R&D Project for Powerleader Desktop Computer Based on Safe and Reliable CPU” was admitted as an approved project under the Science and Technology R&D Fund of Shenzhen Municipality;

MANAGEMENT DISCUSSION AND ANALYSIS

In February 2013, the joint project by the Group and East China University of Science namely "Research and Creation of Certain Key Technologies and a Warning System for Risks in Safety of Financial Information" received the First Class Award of Scientific & Technological Achievement in Shanghai;

In March 2013, the Group was awarded subsidy for intellectual property rights by Shenzhen Municipality;

In April 2013, the Group received "Distinguished Enterprises with Intellectual Property Rights in Shenzhen 2012";

In April 2013, Powerleader Software's "R&D of Powerleader Cloud Control System based on Open Stack" was admitted as an approved project under the Science and Technology Research and Development Fund Project of Shenzhen Municipality (Technology Innovation Project);

In August 2013, Baoteng Internet's "Cloud Network Monitoring and Information Management Platform" was admitted as an approved project under the Strategic Emerging Industry Development Complementary Project Funding Scheme under National and Provincial Planning of Shenzhen Municipality (Joint Innovation Project);

In September 2013, Powerleader Software's "Powerleader Kai Kai Game Cloud Platform" was admitted as an approved project under the Strategic Emerging Industry Development Complementary Project Funding Scheme of Shenzhen Municipality (Next Generation Information Technology);

In September 2013, the Group's "Powerleader Cloud Computing Data Centre Industrial Application Demonstration Project" was admitted as an approved project under the Strategic Emerging Industry Development Complementary Project Funding Scheme of Shenzhen Municipality (Next Generation Information Technology);

In September 2013: the Group was granted the funding (subsidies of loan interest) for Industrial Development Projects in Futian District.

ASSOCIATED COMPANY

深圳中青宝互动网络股份有限公司(Shenzhen ZQ Game Co., Ltd) ("ZQ Game"), a 15.30%-owned associate of the Group which is principally engaged in development and operation of online games, registered turnover of RMB324,475,994.23 in 2013, representing an increase of 75.40% from RMB184,988,422.16 in 2012. The growth was mainly attributable to the ongoing effort of ZQ Game in executing the "four horizontal and one vertical" development strategy. This was realized on the basis that the product line on each front of "user-end games", "web page games", "mobile games" and "mobile social platform" had been operated with enhanced stability. With its highly integrated channels and product offerings, further progress was made in the arena of mobile Internet. Furthermore, it wasted no time in putting down a strategic planning and working on its execution taken advantage of its own strength and used mobile game as the focal point of its exploration in the mobile Internet branch. Through both internal growth and external expansion it succeeded in speeding up the process of its transformation from a conventional online and web page games company into a mobile Internet interactive entertainment contents provider. ZQ Game reported net profit attributable to holders of the listed company's ordinary shares of approximately RMB51,027,332.23 for 2013, leaped 205.7% from RMB16,691,959.64 in 2012. As the second largest shareholder of ZQ Game, the Group will share the enormous benefits brought by the growth of ZQ Game.

HUMAN RESOURCES

Human resources planning, recruitment and performance

This year, the Group endeavored to put into place scientific human resources budget and improve organizational structure, with a view to avoiding the waste of human costs. The Group focused on team building, expansion in channels to bring in talents, building up an efficient mechanism to foster talents and broad platform for their promotion, so as to create a stronghold for the Group against fierce competition. The Group designed a remuneration system which catered for the need of business development, incorporating performance assessment into the system and flow management and implementation of group's control. The system worked to the advantage of focused development in the Group's strategy as well as the management advantages of each business end.

Team building and training of talents

In response to the needs in implementing the Group's development strategy, we built a top-tier talents referral mechanism to continue consolidation and refinement of the training system, so as to foster a team of outstanding trainers.



MANAGEMENT DISCUSSION AND ANALYSIS

Corporate culture and staff relationship

We promoted our corporate culture on various levels and by different channels such as regular release of “Powerleader Windows”, public billboards, OA forum and various cultural and sport activities, with a view to proclaim and practice our corporate culture effectively. It also aimed to enhance communication between the Group and our staff, and promote cohesiveness among our staff.

PROSPECT

In 2013, the Chinese government has unveiled a number of relevant policies at various levels that favoured the development the cloud computing industry. An overview of these policies is set out below:

Policy of the State Council:

“Mid-Long Term Plan of State’s Significant Technological Infrastructure Facility (2012–2030)” (國家重大科技基礎設施建設中長期規劃(2012–2030年)) has been promulgated, which proposed establishment of network trial facilities in the future in order to facilitate breakthroughs in future network basic theories and support new generation Internet experience, which mainly include: original network facility system, and resources control and management system, which covers cloud computing services, Internet of Things application, space information network stimulation, network information safety, high-performance integrated circuit verification and quantum communication network, and other open network experimental systems.

“Opinion Concerning the Promotion of Information Consumption and Expansion of Domestic Demand ” (關於促進資訊消費擴大內需的若干意見) has been promulgated, which stipulates a prolonged promotion of joint establishment and application of telecommunication infrastructure, organization of cloud computing infrastructure landscape such as Internet data centre (IDC). The government at all levels should incorporate information infrastructure into rural urban building and land use planning, and grant necessary government fund in support, with a view to encourage various market players’ engagement in the intelligent city building. It also encourages private capital to be contributed into broadband network infrastructure building, and expansion of private capital for trial spots of mobile communication resale business. It supports private capital to invest in Internet sector and accelerated to realize relevant policies in respect of private capital operation data centre business. It simplifies the approval procedure of grant of data centre license and encourages private capital to enter the basic telecommunication operation market by way of joint stocks.

“Strategic and Implementation Solutions for “Broadband China” (“寬頻中國”戰略及實施方案) has been promulgated, which stipulates the developmental target “by 2015, the new generation state information infrastructure facility which can satisfy the need of economic and social development, and by 2020, gap between the developmental quality our country’s broadband network infrastructure and that of the well-developed countries will be significantly reduced. Our civilians can fully enjoy the economic growth, service convenience and development opportunities brought by broadband”, promotes coordination of regional broadband networks, and accelerates optimization and upgrade of broadband network, as well as improves the application quality of broadband network. It stipulates the organization of Internet data centre building, making use of cloud computing and green energy saving technology to upgrade and modify and thereby enhance the level of efficacy and simple integration. It also stipulates a relentless innovation of broadband application mode, exploring new market industries and accelerating development in the latest service industry such as e-commerce, modernized logistic, online finance, in order to expand industry of new generation information technology such as cloud computing, Internet of Things, mobile Internet and intelligent terminal.

Policy of the Ministry of Industry and Information Technology:

“Designing Guides for Top Layer of Public Platform of Cloud Computing-based E-Government” (基於雲計算的電子政務公共平臺頂層設計指南) has been put forward to exert the use of cloud computing virtualization, advantages of high reliability, popularity, high expansion ability. Leveraging on the existing e-government basis, it aims to build a perfect e-government public platform, support the application development of various departments, and facilitate information sharing between different regions, departments and levels.

“Guides for Data Centre Building Landscape” (關於資料中心建設佈局的指導意見) which is jointly promulgated by five ministries, namely Ministry of Industry and Information Technology, National Development and Reform Commission, Ministry of Land and Resources, State Electricity Regulatory Commission and National Energy Administration, stipulates the establishment and landscape of data centre should be centered around science development, themed at accelerating the changes of development manner, in purpose of enhancing the sustainability and to become market-oriented, while targeting at saving resources and improving safety protection. In compliance with industry development progress, it sets out to tap the comparable advantages within the region, introduce reasonable location of the market subject, plan for long-term development, design on need, build on subject, that gradually form an advancement of technology and reasonable structure, and to coordinate the new landscape of data centre.

Policies of People’s Government of Guangdong Province:

It announces the “Information Development Plan of Guangdong Province(2013-2020)” (廣東省資訊化發展規劃綱要(2013-2020年)), to accelerate the development and application of new technologies such as Internet of Things, cloud computing, bulk data, new generation of wireless broadband communication, and to procure the integration of informatization and industrialization.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2014, with relevant government policies implemented into full swing and the need of cloud computing continues to grow, the Company will capture good development opportunities to realize a rapid and healthy development in its business. Relevant prospects are as follows:

Cloud Infrastructure as a Service (IaaS) — providing cloud server and cloud storage related equipment, as well as their related solutions

Looking forward to 2014, IT operation further will accelerate its developmental pace toward cloud computing. The needs of applications such as Cloud, bulk data, Internet of Things, mobile Internet show trends of growth. While the need of Cloud Infrastructure as a Service continues to grow, Cloud Infrastructure Project such as intelligent cities, safety cities, intelligent traffic, broadband China across the country will become more popular. With favorable State's policy on industry and the growing concern over information safety by society, nationalization substitution process will accelerate. Leveraging on our new self-developed capability, the Company is looking forward to see more opportunities on development.

On front of the sales management, the Company will expand its sales team, optimize its talent structure, bring in the assessment mechanism and incentive mechanism to perfection and inspire the potential of the sales team. Meanwhile, the Company will adhere to its notion of a consolidated industry sales management and a well-established talent building system for its industry development, and will explore opportunities in key industries such as military machineries, energy, telecommunication, finance, government, Internet and education, and take heed of the industry hotspot with good initiative. On front of R&D, the Company relies on the technical research and development advantage of Powerleader research centre. It will devote more resources on the R&D of quad-route, HPC and high-end cloud server. Aiming to provide an integrated solution of the R&D software and hardware of bulk data application, the Company will strengthen the features of the general solution of corporate private cloud and public cloud, so as to further enhance its competitiveness of the Company's cloud server products. On front of brand building and marketing, the Company will carry out a nation-wide promotion emphasizing the successful cases of its cloud core products, new products and solutions through media promotion, marketing, We-Media. It will also commence industry-wide promotion pertinent with scheduled progress of industry development, in an all-out effort to expand and enhance the popularity and impact of Powerleader' brand. The Company will as usual make tremendous contribution to the development of cloud computing business in the PRC.

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

Looking forward to 2014, the Company will be committed to consolidating its sales system, enhancing sales management capability, strengthening its cooperation with suppliers and exploring collaboration possibilities. It will sharpen its competitive edge by leveraging on its self-developed brand advantage, so as to maintain its position as leading cloud computing equipment related components provider. On front of agency distribution and related value-added services of cloud computing equipment key components, the Company will further perfect and expand the agency distribution and related value-added services product group of cloud computing equipment key components centered around Intel Server element model production line, enlarging the production system of agency distribution, actively exploring channel cooperation partners, enhancing its value-added service capability, while providing its channel cooperation partners and industry customers with timely, adequate component support and professional technical support.

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

Looking forward to 2014, the Company will launch its self-developed cloud computing related software, while relentlessly improving and refining the system functions. It will leverage on the advantage of the Group and promptly capture market opportunities arisen, and provide its customers with simple and efficient cloud services with strong scalability, stability and safety on the basis of pay-per-use. Catering for the need of cloud computing and bulk data related application, the Group will capture market opportunities and provide its customers with quality, diversified, and tailor-made software services, and optimized cloud computing solutions, with a view to strengthening its position in PRC as a leading cloud computing solution provider.

Bank financing and capital management

Looking forward to 2014, in order to accommodate the changes in the financing environment, the Group will set up project financing plan with respect to its business requirement to further integrate its superior resources. Meanwhile, the Group will continue to strengthen its internal capital management, optimize its internal control system, implement stricter cost auditing toward the capital use of each business segment, and instill stronger finance cost sense and raise the efficiency of capital use, so as to realize effective utilization of capital.

Human resources

Looking forward to 2014, the Group will optimize the management system of human resources, bring the talent management system to perfection and strengthen multi-channel and multi-level referral system of human resource to establish a comprehensive and systematic training mechanism, and continue to improve our staff professional service standard with profession training, based on project case-study. The Group will optimize and polish its remuneration and performance assessment system, delineating duties and emphasizing assessment of performance, so as to promote good corporate culture, enhance the recognition and sense of belonging of staff, hence facilitating the Group's operation in a stable and progressive manner.



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 48, is the Company's founder, chairman of the Board and executive director. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankai University, Tianjin in 1988, and subsequently obtained a master's degree in tourism business management from the same university in 1990. She 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 working for Powerleader Holdings (宝德投控) as a Director and for Powerleader Network as a director. She is also concurrently acting as vice president of the Association of Shenzhen Software Industry, and vice president of the Association of Shenzhen Women Entrepreneurs. She has been appointed for a current term of office as an executive director on 26 June 2013, with the responsibility for the overall strategy and policy management of the Company.

Mr. Dong Weiping, aged 53, is an executive director and president of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's degree in computer system engineering. Since 1982, Mr. Dong has worked for a number of companies in the IT industry. 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 a current term of office as an executive director on 26 June 2013, with the responsibility for the overall operation management of the Company.

Mr. Ma Zhumao, aged 49, is an executive director and vice president of the Company. He graduated with a master's degree in Computer Engineering from Tianjin University (天津大學) in 1988, and subsequently obtained a master's degree in Business Administration from Guanghua School of Management, Peking University in 2003. Mr. Ma previously worked for Tianjin Institute of Computer Application Technology as engineer, Shenzhen Wan Tong Software Engineering Limited as assistant general manager, 深圳愛華電子有限公司 (Shenzhen Ai Hua Electronics Limited) as senior engineer and its affiliated companies as deputy general manager and chief engineer, TCL Computer Co., Ltd. as technical director, and 綿陽聚星超級計算技術有限公司 as director and vice president. He is currently serving as a supervisor of Powerleader Network. Mr. Ma has been appointed for a current term of office as an executive director on 26 June 2013.

Non-executive Directors

Mr. Li Ruijie, aged 46, is the founder, vice chairman of the Board and a non-executive director of the Company, graduated from Nankai University in the PRC with double bachelor's degrees in economics and electronics science in 1989, and obtained EMBA master's degree from Cheung Kong Graduate School of Business in 2012. He 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 working for Powerleader Holdings (宝德投控) as chairman and Powerleader Network as chairman and general manager. He is also concurrently working for the Software and Integrated Circuit Promotion Centre (CSIP) of the Ministry of Information Industry of China as an expert of cloud computing research centre, Shenzhen General Chamber of Commerce Chaoshan Chamber of Commerce as executive vice president, Shenzhen General Chamber of Commerce (Federation of Industry and Commerce) as executive director, Futian General Chamber of Commerce as vice president, and Shenzhen Charity Federation as vice president, among other positions in public service. Mr. Li has been appointed for a current term of office as a non-executive director on 26 June 2013.

Mr. Sun Wei, aged 49, a non-executive director of the Company, graduated with a bachelor's degree and a master's degree in Engineering from Harbin Shipbuilding Engineering Institute in July 1987 and September 1992, respectively. He graduated with a master's degree in Business Administration from China Europe International Business School of Beijing in September 2005, and was awarded a doctoral degree in Engineering from Harbin Engineering University in June 2006, during which time he published 5 articles in national top-notch publications, and was awarded two Third Class Awards in Provincial (Municipal) Scientific & Technological Achievement. Currently, he is serving for 哈爾濱世紀龍翔科技開發有限公司 as chairman and general manager. Mr. Sun has been appointed for a current term of office as a non-executive director on 26 June 2013.

Mr. Li Donglei, aged 46, a non-executive director of the Company, graduated from the department of computer science of Shandong University with a bachelor's degree in science in 1989, majoring in scientific and technological intelligence. He worked for the information centre of the Second Light Industrial Bureau of Shandong Province as an engineer, and 慧聰集團濟南公司 as general manager. He is currently acting as general manager of 北京鑫聯合智業企業顧問有限公司. Mr. Li has been appointed for a current term of office as a non-executive director on 26 June 2013.

Independent Non-executive Directors

Mr. Chan Shiu Yuen Sammy, aged 49, an independent non-executive director of the Company, has more than 20 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Chan was the qualified accountant, company secretary and authorized representative of the Company, the deputy general manager of China Fibretech Limited. He is currently a director of Brilliant Consultancy Limited and the chief financial officer of Newtree Group Holdings Limited. Mr. Chan has been appointed for a current term of office as an independent non-executive director on 26 June 2013.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Guo Wanda, aged 48, 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 Institute of Economics, Nankai University. He was also director of the macro-economic forecasting department of Shenzhen Information Centre. He was previously working for 深圳廣順股份有限公司 as an investment department head, a secretary of the Board of Directors and an assistant general manager. He served for 廣順投資湖北沙市公司 as chairman and general manager. He is currently acting as independent directors of Shenzhen MYS Environmental Protection & Technology Company Ltd. (美盈森) (stock code: 002303), and HIT Shouchuang Technology Co., Ltd. (工大首創) (stock code: 600857). He is the vice president of China Development Institute of Shenzhen, the chairman of Shenzhen Association of Management Consultants, and also a committee member of the advisory committee of Shenzhen municipal government. He has been appointed for a current term of office as an independent non-executive director on 26 June 2013.

Mr. Jiang Baijun, aged 52, graduated from the China Central Radio and TV University, majoring in Chinese Literature. He was previously a secondary school teacher in Xian. He was engaged as a special commentator on market development, and hosted the directors of the Company's forum of China Computerworld. 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 named the market strategic consultant of the monitor business of PHILIPS China, as well as the market strategic consultant of the 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 a current term of office an independent non-executive director on 26 June 2013.

SUPERVISORS

Ms. Shu Ling, aged 39, graduated with a bachelor's degree in biology education from Guizhou Education University in the PRC. She is currently the chairman of the supervisory committee of the Company, and the deputy general manager of 宝德計算機 (Powerleader Computing), a subsidiary of the Company.

Mr. Chen Zhen Zhi, aged 37, graduated from Tianjin University. Mr. Chen joined the Company in March 2001. He is currently a supervisor of the Company, and the general manager of Baotong Zhiyuan, a subsidiary of the Company.

Ms. Li Xiaowei, aged 37, holds a bachelor's degree in electrical 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.

COMPANY SECRETARY

Mr. Xu Yueming, aged 40, is the vice president, chief financial officer and company secretary of the Company. He is a Chinese certified public accountant, a Chinese certified tax agent and a qualified senior accountant in China. Mr. Xu holds a bachelor's degree in economics from Hangzhou Institute of Electronic Technology. He worked in the finance department of 深圳市賽格三星股份有限公司, the audit department of Shenzhen China Accounting Company and the finance department of HL Corp. (Shenzhen) (深圳信隆實業股份有限公司). He previously worked for Shenzhen Yuto Printing & Packing Co., Ltd. (深圳市裕同印刷包裝有限公司). Mr. Xu is currently acting as a director of Shenzhen Woer Heat-Shrinkable Material Co., Ltd. (沃爾核材) (stock code: 002130). Mr. Xu is also an expert for the assessment of the government funded projects in Futian District, Shenzhen.

SENIOR MANAGEMENT

Mr. Du Yukuan, aged 50, is the executive vice president of the Company. Mr. Du has a bachelor's degree in nuclear physics from the Physics Department of Zhengzhou University and a Master's degree in Business Administration from the Olin Business School at Washington University in St. Louis. He was the senior manager of the technical marketing department at Motorola (China). He was the senior vice president at UTStarcome Inc in the United States. He was also the president of Shenzhen DNS. He has expert knowledge in the fields of telecommunications, electronics and management.

Mr. Zhang Xu, aged 53, the Company's vice president and technology research institute president. He graduated with a bachelor's degree in the Faculty of Radio from 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. He was the senior ASIC design engineer of Divio in the United States. He was the 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 U.S. Supermicro Computer. 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. Xu Yueming is the vice president and chief financial officer of the Company. Please refer to the above paragraph headed "COMPANY SECRETARY" in this section for his biographical background.



REPORT OF THE SUPERVISORS

To all shareholders,

During the year, in compliance with the Company Law of the PRC, the relevant laws and regulations of Hong Kong and the Company's Articles of Association, Powerleader Science & Technology Group Limited Supervisory Committee ("Supervisory Committee"), upholding honesty and integrity, worked earnestly with caution and diligence, and discharged its statutory supervisory duties of safeguarding the lawful interests of the shareholders of the Company.

During the year, the Supervisory Committee has reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions for business and development plans to the Board. In addition, the Supervisory Committee has performed tight and effective inspection on the significant policies and decisions made by management of the Company so as to ensure that they were in compliance with the relevant laws and regulations and the Company's Articles of Association and that the interest of the shareholders were protected.

The Supervisory Committee earnestly reviewed the Report of the directors of the Company and the financial statements of the Group for the year ended 31 December 2013 which was audited by ShineWing CPA (Special General Partnership) to be submitted by the Board at the coming annual general meeting. The Supervisory Committee is in the view that the financial report was prepared in compliance with relevant accounting standards and that they were a truthful and fair reflection of 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 worked with diligence and honesty, faithfully discharging their duties according to the Company's Articles of Association and earnestly executing resolutions approved by the general meeting and the Board of Directors during the year. We did not find any Directors and senior management abuse of power or infringement of the interests of shareholders and employees of the Company and not in 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 compliance with the Company's Articles of Association and relevant regulations of the Listing Rules, while ensuring the interests of the Company and shareholders are protected.

By the Order of the Supervisory Committee

Shu Ling

Chairman of the Supervisory Committee

Shenzhen, the PRC
28 March 2014

The directors of the Company present their annual report and the audited financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Group is mainly engaged in the provision of cloud computing products and their related solutions and services, including:

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

Details of the principal activities of the Company's subsidiaries are set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 32. The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2013. Final dividends of RMB0.005 (Including tax) per shares, totaling RMB12,150,000, were paid for the year ended 31 December 2012.

DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) International Financial Reporting Standards or the accounting standards of the places in which its shares are issued.

The Company's distributable reserve as at 31 December 2013 and 2012 in the opinion of the directors of the Company was RMB437,634,781 and RMB399,561,059 respectively.

SHARE CAPITAL

Details of the movements during the year in the share capital of the Group are set out in note 6.29 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 6.11 to the financial statements.

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 ("Ms. Zhang")
Mr. Dong Weiping ("Mr. Dong")
Mr. Ma Zhumao ("Mr. Ma")

Non-executive Directors:

Mr. Li Ruijie ("Mr. Li")
Mr. Sun Wei ("Mr. Sun")
Mr. Li Donglei



DIRECTORS' REPORT

Independent non-executive Directors:

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

Supervisors:

Ms. Shu Ling
Mr. Chen Zhen Zhi
Ms. Li Xiaowei

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors of the Company (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, since the date of their appointments, subject to the right of termination as stipulated in the relevant service agreement. The basic salary of each of the directors of the Company for the year ended 31 December 2013 is set out below:

Names of Directors	RMB
Executive Directors:	
Ms. Zhang	240,000
Mr. Dong	420,000
Mr. Ma	240,000
Non-executive Directors:	
Mr. Li	60,000
Mr. Sun	60,000
Mr. Li Donglei	60,000
Independent non-executive Directors:	
Mr. Chan Shiu Yuen Sammy ("Mr. Chan")	60,000
Dr. Guo Wanda ("Dr. Guo")	60,000
Mr. Jiang Baijun ("Mr. Jiang")	60,000

All Directors have re-entered into service contracts with the Company on 26 June 2013.

Each of the supervisors has entered into a service contract with the Company, in each case, for a term of three years since the date of their appointment, subject to termination in certain circumstances as stipulated in the relevant service contract. The basic salary of each of the supervisors for the year ended 31 December 2013 is set out below:

Names of Supervisors	RMB
Ms. Shu Ling	120,000
Mr. Chen Zhen Zhi	180,000
Ms. Li Xiaowei	108,000

All Supervisors have re-entered into service contracts with the Company on 26 June 2013.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY AND DEBT SECURITIES

As at 31 December 2013, the interests or short positions of the directors of the Company, supervisors and chief executive of the Company and their associates in the shares and 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 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 which they are taken or deemed to have under relevant provisions of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by the directors of the Company were as follows:

Shares of the Company

Name of directors	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 (Note)	102,184,500	42.05%	56.07%
Ms. Zhang (Note)	102,184,500	42.05%	56.07%

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

Save as disclosed above, as at 31 December 2013, none of the directors of the Company, supervisors and chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have 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 which they are taken or deemed to have under relevant provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Up to 31 December 2013, the Company has not adopted any share option scheme and not granted any option.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the year, the Company or any of its subsidiaries was not a party to any arrangements to enable the directors of the Company or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate, and none of the directors of the Company or 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

No contracts of significance, to which the Company or its subsidiaries was a party and in which a 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.



DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2013, the directors of the Company are not aware of any other interests and short positions in shares and underlying shares or debentures of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

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
Powerleader Investment Holding Company Limited (Note)	102,184,500	Beneficial owner	42.05%	56.07%

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in note 7 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	8.58%
— five largest customers combined	27.20%

Purchase

— the largest supplier	67.74%
— five largest supplies combined	85.16%

None of the directors of the Company, supervisors, their associates or any shareholder of the Company (which to the knowledge of the directors of the Company and supervisors owns more than 5% of the Company's issued share capital) had an interest in any of the five largest suppliers or customers of the Group.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the directors of the Company, initial management shareholders or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest which any such person may have with the Group as at 31 December 2013.

CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the Board, the Company had complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM for 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 provide an important link between the Board and the Group's auditors in matters coming within the scope of the Group audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. 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 2012, the quarterly reports of the first and third quarters of 2013 as well as the interim report of 2013. In addition, the Committee has also reviewed the annual results for the year ended 31 December 2013 and was of the opinion that the preparation of such results complied with the applicable standards and requirements of the Stock Exchange and other regulations.

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 was no restriction against 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 the auditors of the Company for the year ended 31 December 2013, whose appointment was approved at the annual general meeting of the Company convened and held on 26 June 2013, and became effective from 26 June 2013 until the conclusion of the next annual general meeting of the Company.

ShineWing (HK) CPA Limited was the auditors of the Company for the years ended 31 December 2011 and 31 December 2012 who had retired with effect from the conclusion of the annual general meeting of the Company convened and held on 26 June 2013.

On behalf of the Board
ZHANG YUNXIA
CHAIRMAN

Shenzhen, the PRC
28 March 2014



CORPORATE GOVERNANCE REPORT

During the year, the Company has conducted review on its internal governance measures against the provisions as set out in the Code on Corporate Governance Practices (the "Code"). A number of internal governance measures have been introduced to the management of the Company in order to bring up their awareness of the Code. Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions 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. Having made specific enquiry of all Directors, the directors of the Company have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors of the Company throughout the year ended 31 December 2013.

BOARD OF DIRECTORS AND BOARD MEETING

The Board of Directors, 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. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls 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 of the Company, Supervisors and Senior Management". All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualifications 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 commencing on 26 June 2013. Dr. Guo Wanda has been re-appointed as an independent non-executive Director for another term of three years commencing on 26 June 2013 and Mr. Jiang Baijun has been re-appointed as an independent non-executive Director for another term of three years commencing on 26 June 2013. All 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 appointments may be terminated under mutual agreement between the Director and the Company.

The board of Directors held 24 board meetings during the year under review. Details of the attendance of the Directors to the meetings are as follows:

Directors	Attendance
Executive Directors	
Ms. Zhang Yunxia (<i>Chairman</i>)	24/24
Mr. Dong Weiping (<i>Chief Executive</i>)	24/24
Mr. Ma Zhumao	24/24
Non-executive Directors	
Mr. Li Ruijie (<i>Vice Chairman</i>)	24/24
Mr. Sun Wei	24/24
Mr. Li Donglei	24/24
Independent Non-executive Directors	
Mr. Chan Shiu Yuen Sammy	24/24
Dr. Guo Wanda	24/24
Mr. Jiang Baijun	24/24

CORPORATE GOVERNANCE REPORT

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.

Apart from the regular board meetings of the year, the Board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors of the Company will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Continuing Professional Development of Directors

During the year ended 31 December 2013, Directors of the Company attended various seminars and training programmes organised by a few professional bodies and institutions. 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	Informing themselves of regulatory updates	Attending trainings/ briefings/panels/seminars
Executive Directors		
Ms. Zhang Yunxia (<i>Chairman</i>)	✓	✓
Mr. Dong Weiping (<i>CEO</i>)	✓	✓
Mr. Ma Zhumao	✓	✓
Non-executive Directors		
Mr. Li Ruijie (<i>Vice Chairman</i>)	✓	✓
Mr. Sun Wei	✓	✓
Mr. Li Donglei	✓	✓
Independent non-executive Directors		
Mr. Chan Shiu Yuen Sammy	✓	✓
Dr. Guo Wanda	✓	✓
Mr. Jiang Baijun	✓	✓

During the year, the Board has at all times met 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 2013, and those policies are suitable for its directors, supervisors and senior management.

CHAIRMAN AND CHIEF EXECUTIVE

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

APPOINTMENT 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.



CORPORATE GOVERNANCE REPORT

TERMS OF APPOINTMENT OF EXECUTIVE DIRECTORS

Ms. Zhang Yunxia was reappointed as an executive Director on 26 June 2013 for a term of three years. Mr. Dong Weiping was reappointed as an executive Director on 26 June 2013 for a term of three years, and Mr. Ma Zhumao as an executive Director on 26 June 2013 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 appointment of the term of office may be terminated by either the Director or the Company upon agreement by both parties.

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Li Ruijie was reappointed as a non-executive Director on 26 June 2013 for a term of three years. Mr. Sun Wei was reappointed as a non-executive Director on 26 June 2013 for a term of three years. Mr. Li Donglei was reappointed as a non-executive Director on 26 June 2013 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 appointment of the term of office may be terminated by either the Director or the Company upon agreement by both parties.

TERMS OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Yuen Sammy was reappointed as an independent non-executive Directors on 26 June 2013 for a term of three years. Dr. Guo Wanda was reappointed as an independent non-executive Directors on 26 June 2013 for a term of three years. Mr. Jiang Baijun was reappointed as an independent non-executive Directors on 26 June 2013 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 appointment of the term of office may be terminated by either the Director or the Company upon agreement by both parties.

GENERAL MEETINGS

The shareholders' general meetings of the Company are endowed with the highest authority. A total of six shareholders' general meetings were held in 2013. On 26 June 2013, the Company held the annual general meeting, at which the motions relating to the approval of the Director's Report, the Report of the Supervisors, the financial statements and the appointment of Directors and Supervisors for the year 2012 were passed by way of ordinary resolutions, and the motions relating to the approval of the "Corresponding Amendments to the Company's Constitution for the Change of Auditors" and the amendments to the constitution of the Company were passed by way of special resolutions. The special resolutions of the annual general meeting had been passed at the H shares class meeting and the domestic shares shareholders' meeting on 26 June 2013. In addition, an extraordinary general meeting was held by the Company on 11 November 2013, at which the motions relating to the approval of "Consolidation of 10 Shares into 1" and the amendments to the constitution of the Company were passed by way of special resolutions. The special resolutions of the extraordinary general meeting had been passed at the H shares class meeting and the domestic shares shareholders' meeting on 11 November 2013.

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 are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun. All of them are independent non-executive Directors. 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 audit committee meetings are set out as follows:

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

CORPORATE GOVERNANCE REPORT

All of the Group's unaudited quarterly and interim results for the year ended 31 December 2013 and audited 2013 annual results have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other regulations, 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 functions of the remuneration committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their 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 salaries paid by comparable companies, time commitment and responsibilities of the Directors of the Company, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held on 27 March 2013. Details of the attendance record of the remuneration committee meeting are set out as follows:

Members	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 include Dr. Guo Wanda and Mr. Jiang Baijun, both being independent non-executive Directors.

It is the board of Directors' responsibilities in relation to nomination of Directors (i) to review the structure, size and composition of the Board; (ii) identify individuals suitably qualified to become Board members; and (iii) to convene shareholders' 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 27 March 2013. Details of the attendance of the nomination committee meeting are as follows:

Members	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 RMB796,558.



CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company has appointed Mr. Xu Yueming as a company secretary. Mr. Xu Yueming 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

Shareholders are encouraged to attend the general meetings of the Company. The notice of each general meeting is issued 45 days prior to the holding of the meeting. According to the articles of association of the Company, shareholders holding 10% or more than 10% of the issued and outstanding shares of the Company with voting rights are entitled to convene an extraordinary general meeting by raising their request to the Board of Directors with a written notice. 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, and the relevant information will be provided by the Company in accordance with the request of shareholders as soon as possible. Inquiries made to the Board or the Company should be sent to the Company at the principal place of business in Hong Kong at Room 105, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company's annual general meeting provides a good opportunity for its directors to meet and communicate with shareholders. All directors will make best effort to attend the annual general meeting, in order to answer questions from shareholders. In conformity to the disclosure requirements under the GEM Listing Rules, the Company should make a complete and accurate disclosure of all important information required to be disclosed on the website designated by the relevant regulatory authority in a timely fashion, in order to ensure that shareholders can duly exercise their right to access to information and participation.

The Company has set up a dedicated department to deal with investor relations. It also strictly complies with the relevant requirements including the "policy on communications with shareholders", 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 better understanding about the Company, while enabling shareholders to exercise their right 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 the Company's shareholders and potential investors. Apart from disclosure of all necessary information to the 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 of the Company were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2013. The directors of the Company's responsibility in the preparation of the financial statements and the auditor's responsibility are set out in the Auditor's Report.

INTERNAL CONTROL

The Company had conducted periodical reviews on its system of internal control to ensure there is an effective and adequate internal control system. The Company convened meetings periodically to discuss matters in relation to financial, operational and risk management control.



信永中和会计师事务所

ShineWing
certified public accountants

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**TO THE SHAREHOLDERS OF
POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED**

We have audited the accompanying financial statements of Powerleader Science & Technology Group Limited (hereinafter referred to as "Powerleader Science & Technology Company"), which comprise the consolidated and Company balance sheets as at 31 December 2013, the consolidated and Company income statements, the consolidated and Company cash flow statements and the consolidated and Company statements of changes in shareholders' equity for the year then ended and notes to these financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Powerleader Science & Technology Company is responsible for the preparation and the fair presentation of the financial statements. These responsibilities include (1) preparing financial statements in accordance with Accounting Standards for Business Enterprises that are fairly presented; (2) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error.

2. CERTIFIED PUBLIC ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

3. AUDIT OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the consolidated and Company financial position of Powerleader Science & Technology Company as at 31 December 2013 and of their financial performance and their cash flows for the year then ended.

**ShineWing Certified Public Accountants
(Special General Partnership)**

Beijing, China

Chinese Certified Public Accountant
Guo Jinlong

Chinese Certified Public Accountant
Qiu Lequn

28 March 2014

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	Ending balance	Opening balance (Re-stated)
Current Assets:			
Bank balance and cash	VI.1	370,444,415.57	241,923,342.50
Financial assets at fair value through profit or loss	VI.2	362,198.90	178,693.25
Notes receivable	VI.3	19,850,837.81	28,224,142.28
Accounts receivable	VI.4	395,920,420.06	360,538,998.63
Prepayments	VI.5	32,346,250.20	24,063,804.96
Interest receivables			
Dividend receivables			
Other receivables	VI.6	173,759,856.44	152,531,800.66
Inventories	VI.7	190,991,433.57	175,100,856.14
Non-current assets classified as held for disposal and assets in an asset group classified as held for disposal			
Non-current assets due within 1 year			
Other current assets	VI.8	93,815.82	0.00
Total current assets		1,183,769,228.37	982,561,638.42
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investment			
Long-term accounts receivable			
Long-term equity investment	VI.9	204,433,275.76	154,667,011.01
Investment Properties	VI.10	16,838,422.38	—
Fixed assets	VI.11	201,220,888.57	222,952,104.16
Construction in progress	VI.12	24,249,172.78	—
Construction material			
Fixed assets pending for disposal			
Intangible assets	VI.13	96,832,657.57	84,861,983.89
Development expenditure	VI.14	37,043,811.51	16,800,606.80
Goodwill			
Long-term prepayments	VI.15	52,652.89	135,145.42
Deferred income tax assets	VI.16	988,469.02	—
Other non-current assets			
Total non-current assets		581,659,350.48	479,416,851.28
Total assets		1,765,428,578.85	1,461,978,489.70

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	Ending balance	Opening balance (Re-stated)
Current liabilities:			
Short-term loans	VI.18	552,801,859.89	542,895,108.87
Financial liabilities at fair value through profit or loss			
Notes payable		—	832,225.90
Accounts payable	VI.19	165,464,646.87	148,363,192.93
Receipts in advance	VI.20	18,681,340.48	16,300,539.94
Employee emolument payables	VI.21	5,400,368.45	3,669,412.35
Tax payables	VI.22	14,818,814.62	3,435,219.78
Interest payables	VI.23	394,625.00	—
Dividend payables			
Other payables	VI.24	47,496,439.82	10,068,483.22
Liabilities classified as held for disposal			
Non-current liabilities repayable within one year	VI.25	60,000,000.00	20,000,000.00
Other current liabilities	VI.26	2,532,190.51	2,051,302.48
Total current liabilities		867,590,285.64	747,615,485.47
Non-current liabilities:			
Long-term loans	VI.27	140,000,000.00	—
Long-term payables			
Payables for special project			
Provisions			
Deferred income tax liabilities	VI.16	1,513,303.41	3,612,773.20
Other non-current liabilities	VI.28	8,637,000.00	4,700,000.00
Total non-current liabilities		150,150,303.41	8,312,773.20
Total Liabilities		1,017,740,589.05	755,928,258.67
Shareholders' equity:			
Capital	VI.29	243,000,000.00	243,000,000.00
Capital reserves	VI.30	31,987,251.85	28,729,862.88
Less: Treasury shares			
Special reserves			
Surplus reserves	VI.31	34,601,238.65	34,601,238.65
General Risk Reserves			
Undistributed profits	VI.32	437,634,780.76	399,561,058.90
Exchange difference on translation of financial statements denominated in foreign currency			
Equity attributable to shareholders of the Company		747,223,271.26	705,892,160.43
Minority interests	VI.33	464,718.54	158,070.60
Total shareholders' equity		747,687,989.80	706,050,231.03
Total liabilities and shareholders' equity		1,765,428,578.85	1,461,978,489.70

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

BALANCE SHEET OF THE COMPANY

As at 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	Ending balance	Opening balance (Re-stated)
Current Assets:			
Bank balances and cash	XV.1	246,262,016.87	158,621,064.64
Financial assets at fair value through profit or loss			
Notes receivable	XV.2	15,436,627.81	15,252,135.07
Accounts receivable	XV.3	85,848,775.60	43,129,798.60
Prepayments	XV.4	1,685,000.00	—
Interest receivables			
Dividend receivables	XV.5	80,000,000.00	140,000,000.00
Other receivables	XV.6	447,300,444.15	352,076,417.91
Inventories	XV.7	58,431,065.69	14,836,779.76
Non-current assets classified as held for disposal and assets in an asset group classified as held for disposal			
Non-current assets due within 1 year			
Other current assets		9,625.29	0.00
Total current assets		934,973,555.41	723,916,195.98
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investment			
Long-term accounts receivable			
Long-term equity investments	XV.8	367,012,025.75	299,245,761.01
Investment Properties	XV.9	16,838,422.38	—
Fixed assets	XV.10	71,839,171.99	92,523,031.74
Construction in progress	XV.11	22,662,263.78	—
Construction material			
Fixed assets pending for disposal			
Bearer biological assets			
Oil and gas assets			
Intangible assets	XV.12	7,672,535.58	13,794,655.19
Development expenditures	XV.13	10,548,913.03	5,963,621.27
Goodwill			
Long-term prepayments			
Deferred income tax assets			
Other non-current assets			
Total non-current assets		496,573,332.51	411,527,069.21
Total assets		1,431,546,887.92	1,135,443,265.19

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

BALANCE SHEET OF THE COMPANY

As at 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	Ending balance	Opening balance (Re-stated)
Current liabilities:			
Short-term loans	XV.16	472,589,731.55	448,268,962.49
Financial liabilities at fair value through profit or loss			
Notes payable			
Accounts payable	XV.17	171,554,067.34	82,150,188.90
Receipts in advance	XV.18	9,013,472.63	3,310,991.55
Employee emolument payables	XV.19	2,791,611.22	427,410.37
Tax payables	XV.20	13,101,217.54	6,714,570.46
Interest payables	XV.21	394,625.00	—
Dividend payables			
Other payables	XV.22	125,758,867.27	134,282,399.65
Liabilities classified as held for disposal			
Non-current liabilities repayable within one year	XV.23	60,000,000.00	—
Other current liabilities	XV.24	538,288.85	1,461,951.68
Total current liabilities		855,741,881.40	676,616,475.10
Non-current liabilities:			
Long-term loans	XV.25	140,000,000.00	—
Bonds payable			
Long-term accounts payables			
Payables for special project			
Provisions			
Deferred income tax liabilities			
Other non-current liabilities	XV.26	4,237,000.00	1,700,000.00
Total non-current liabilities		144,237,000.00	1,700,000.00
Total Liabilities		999,978,881.40	678,316,475.10
Shareholders' equity:			
Capital	XV.27	243,000,000.00	243,000,000.00
Capital reserves	XV.28	29,174,536.79	25,917,147.82
Less: Treasury shares			
Special reserves			
Surplus reserves	XV.29	34,601,238.65	34,601,238.65
General Risk Reserves			
Undistributed profits	XV.30	124,792,231.08	153,608,403.62
Total shareholders' equity		431,568,006.52	457,126,790.09
Total liabilities and shareholders' equity		1,431,546,887.92	1,135,443,265.19

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	This year	Last year
I. Total operating revenue	VI.37	1,560,677,930.33	1,750,772,574.69
Including: operating revenue		1,560,677,930.33	1,750,772,574.69
II. Total operating cost		1,526,366,606.32	1,692,318,809.79
Including: Cost of operation	VI.37	1,376,359,016.30	1,529,995,123.47
Sales tax and levies	VI.38	2,251,636.52	2,463,676.39
Selling expenses	VI.39	42,666,930.00	39,637,288.83
Administrative expenses	VI.40	54,415,288.51	60,018,964.46
Finance costs	VI.41	45,344,781.41	49,189,955.93
Impairment loss of assets	VI.42	5,328,953.58	11,013,800.71
Add: Gain (Loss) on fair value changes (loss is denoted as “()”)	VI.43	183,505.65	178,693.25
Investment income (loss is denoted as “()”)	VI.44	11,065,648.37	1,777,286.39
Including: Share of profit of associates and jointly controlled entity		8,702,275.77	1,623,572.00
III. Operating profit (loss is denoted as “()”)		45,560,478.03	60,409,744.54
Add: Non-operating income	VI.45	11,387,188.83	10,857,887.46
Including: Gain on disposal of non-current assets		5,214.53	84,911.62
Less: Non-operating expenses	VI.46	279,156.38	420,721.01
Including: Loss on disposal of non-current assets		103,662.27	60,305.31
IV. Total Profit (Total loss is denoted as “()”)		56,668,510.48	70,846,910.99
Less: Income tax expenses	VI.48	6,338,140.68	(7,842,169.98)
V. Net profit (Net loss is denoted as “()”)		50,330,369.80	78,689,080.97
Attributable to shareholders of the Company		50,223,721.86	78,742,985.67
Minority interests		106,647.94	(53,904.70)
VI. Earnings per share			
(1) Basic earnings per share	VI.52	0.2067	0.3240
(2) Diluted earnings per share	VI.52	0.2067	0.3240
VII. Other comprehensive income	VI.53	(9,527.61)	4,334.26
Other comprehensive income which cannot be recycled to profit or loss in subsequent accounting periods			
Other comprehensive income which can be recycled to profit or loss in subsequent accounting periods if conditions are satisfied		(9,527.61)	4,334.26
VIII. Total comprehensive income		50,320,842.19	78,693,415.23
Total comprehensive income attributable to shareholders of the Company		50,214,194.25	78,747,319.93
Total comprehensive income attributable to minority interests		106,647.94	(53,904.70)

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

INCOME STATEMENT OF THE COMPANY

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	This year	Last year
I. Total operating revenue	XV.34	214,262,063.78	146,669,285.44
Less: Operating costs	XV.34	173,540,689.03	110,076,021.45
Sales tax and levies	XV.35	614,811.85	800,345.83
Selling expenses	XV.36	4,044,094.91	3,495,659.07
Administrative expenses	XV.37	28,420,586.85	31,988,567.43
Finance costs	XV.38	38,080,444.36	37,899,172.21
Impairment loss of assets	XV.39	(1,033,409.88)	4,707,812.81
Add: Gain on fair value changes (loss is denoted as “()”)			
Investment income (loss is denoted as “()”)	XV.40	9,206,395.78	75,723,299.42
Including: Share of profit of associates and jointly controlled entity		8,702,275.77	1,593,299.42
II. Operating profit (loss is denoted as “()”)		(20,198,757.56)	33,425,006.06
Add: Non-operating income	XV.41	3,781,684.16	1,219,788.81
Including: Gain on disposal of non-current assets		114.53	58,227.50
Less: Non-operating expenses	XV.42	249,099.14	48,815.38
Including: Loss on disposal of non-current assets		77,402.52	1,136.35
III. Total profit (Total loss is denoted as “()”)		(16,666,172.54)	34,595,979.49
Less: Income tax expenses	XV.43		
III. Net profit (Net loss is denoted as “()”)		(16,666,172.54)	34,595,979.49
V. Earnings per share:			
(1) Basic earnings per share			
(2) Diluted earnings per share			
VI. Other comprehensive income	XV.47	(9,527.61)	4,334.26
Other comprehensive income which cannot be recycled to profit or loss in subsequent accounting periods			
Other comprehensive income which can be recycled to profit or loss in subsequent accounting periods if conditions are satisfied		(9,527.61)	4,334.26
VII. Total comprehensive income		(16,675,700.15)	34,600,313.75

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	This year	Last year
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		1,652,103,876.65	1,775,647,447.46
Refund of taxes and levies		4,171,969.22	4,220,000.00
Other cash receipts relating to operating activities	VI.54	17,351,915.42	50,250,720.22
Sub-total of cash inflows from operating activities		1,673,627,761.29	1,830,118,167.68
Cash paid for goods and services		1,462,191,096.22	1,654,310,894.96
Cash paid to and on behalf of employees		42,556,369.54	39,193,356.50
Payments of taxes and levies		34,542,498.40	25,564,188.70
Other cash payments relating to operating activities	VI.54	83,613,540.80	62,999,699.38
Sub-total of cash outflows from operating activities		1,622,903,504.96	1,782,068,139.54
Net cash flows from operating activities		50,724,256.33	48,050,028.14
II. Cash flows from investing activities			
Cash received from investments		24,829,526.75	—
Cash received from returns on investments		1,556,772.64	995,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		185,230.94	224,000.00
Net cash received from disposal of subsidiaries and other operating units			
Other cash receipts relating to investing activities			
Sub-total cash inflows from investing activities		26,571,530.33	1,219,000.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		52,287,152.33	40,624,000.00
Cash paid on investments		19,000,000.00	—
Increase in secured loans			
Net cash paid on acquisition of subsidiaries and other operating units			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		71,287,152.33	40,624,000.00
Net cash flows from investing activities		44,715,622.00	(39,405,000.00)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	This year	Last year
III. Cash flows from financing activities			
Cash received from financing			
Including: Cash received from investment from minority shareholders			
Cash received from loans		1,799,169,170.81	1,405,380,000.00
Cash received from insuring bonds			
Cash received from other financing activities	VI.54	8,503,522.38	1,513,880.00
Sub-total cash inflows from financing activities		1,807,672,693.19	1,406,893,880.00
Cash payments for settlement of loans		1,609,262,419.79	1,473,968,000.00
Cash payments for interest expenses, distribution of dividend or profits		57,793,361.69	56,028,270.00
Including: cash payments for distribution of dividends to minority shareholders			
Other cash payments relating to financing activities	VI.54	—	24,680,410.60
Sub-total cash outflows from financing activities		1,667,055,781.48	1,554,676,680.60
Net cash flows from financing activities		140,616,911.71	(147,782,800.60)
IV. Effect of foreign exchange rate changes			
		(4,915,483.24)	(1,879,081.52)
V. Decrease in cash and cash equivalents			
Add: Cash and cash equivalents at beginning of year		190,209,150.73	331,226,004.71
VI. Cash and cash equivalents at end of year			
		331,919,213.53	190,209,150.73

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	This year	Last year
I. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		174,878,150.06	202,729,931.68
Refund of taxes and levies			
Other cash receipts relating to operating activities	XV.48	9,035,906.53	154,843,624.50
Sub-total of cash inflows from operating activities		183,914,056.59	357,573,556.18
Cash paid for goods and services		139,769,132.15	178,084,081.04
Cash paid to and on behalf of employees		8,513,518.25	8,039,854.09
Payments of taxes and levies		6,501,592.42	4,033,081.31
Other cash payments relating to operating activities	XV.48	184,680,210.79	19,859,831.36
Sub-total of cash outflows from operating activities		339,464,453.61	210,016,847.80
Net cash flows from operating activities		155,550,397.02	147,556,708.38
II. Cash flows from investing activities			
Cash received from investments		20,304,014.31	—
Cash received from returns on investments		61,193,400.00	40,994,500.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		54,918.00	163,300.00
Net cash received from disposal of subsidiaries and other operating units		173,563.48	—
Other cash receipts relating to investing activities			
Sub-total cash inflows from investing activities		81,725,895.79	41,157,800.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		14,401,273.07	9,683,203.81
Cash paid on investments		38,800,000.00	—
Net cash paid on acquisition of subsidiaries and other operating units			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		53,201,273.07	9,683,203.81
Net cash flows used in investing activities		28,524,622.72	31,474,596.19

CASH FLOW STATEMENT OF THE COMPANY

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Note	This year	Last year
III. Cash flows from financing activities			
Cash received from absorption investments			
Cash received from loans		1,218,494,105.77	1,112,824,994.10
Cash received from insuring bonds			
Cash received from other financing activities	XV.48	11,175,413.12	—
Sub-total cash inflows from financing activities		1,229,669,518.89	1,112,824,994.10
Cash payments for settlement of loans		949,146,980.38	1,300,155,382.60
Cash payments for interest expenses, distribution of dividend or profits		51,818,005.85	51,090,768.66
Other cash payments relating to financing activities	XV.48	—	24,200,733.23
Sub-total cash outflows from financing activities		1,000,964,986.23	1,375,446,884.49
Net cash flows from financing activities		228,704,532.66	(262,621,890.39)
IV. Effect of foreign exchange rate changes			
		(2,318,003.86)	(822,947.53)
V. Increase in cash and cash equivalents			
Add: Cash and cash equivalents at beginning of year		99,360,754.50	(84,413,533.35)
		111,862,940.93	196,276,474.28
VI. Cash and cash equivalents at end of year			
		211,223,695.43	111,862,940.93

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	This year									Total shareholders' equity
	Share capital	Capital reserves	Less: Treasury share	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Minority interests	
I. Balance at the end of last year	243,000,000.00	28,729,862.88	—	—	34,601,238.65	—	399,561,058.90	—	158,070.60	706,050,231.03
Add: Changes in accounting policy										
Correction of errors of previous years										
Others										
II. Balance at beginning of year	243,000,000.00	28,729,862.88	—	—	34,601,238.65	—	399,561,058.90	—	158,070.60	706,050,231.03
III. Increase/decrease for the year	—	3,257,388.97	—	—	—	—	38,073,721.86	—	306,647.94	41,637,758.77
(1) Net profit							50,223,721.86		106,647.94	50,330,369.80
(2) Other comprehensive income		(9,527.61)								(9,527.61)
Sub-total of (1) and (2)	—	(9,527.61)	—	—	—	—	50,223,721.86	—	106,647.94	50,320,842.19
(3) Contribution from shareholders and reduction of capital	—	—	—	—	—	—	—	—	200,000.00	200,000.00
1. Transfer to surplus reserves										
Injection from shareholders									200,000.00	200,000.00
2. Share-based payment included in the amount of Stockholders' equity										
3. Others										
(4) Profit appropriation	—	—	—	—	—	—	(12,150,000.00)	—	—	(12,150,000.00)
1. Transfer to surplus reserves										
2. Transfer to general risk reserves										
3. Dividends paid to shareholders							(12,150,000.00)			(12,150,000.00)
4. Others										
(5) Equity transfer										
1. Transfer of capital reserves to share capital										
2. Transfer of surplus reserves to share capital										
3. Make good of losses by surplus reserves										
4. Others										
(6) Special reserves										
1. Provision for the year										
2. Utilisation of the year										
(7) Others		3,266,916.58								3,266,916.58
IV. Balance at end of year	243,000,000.00	31,987,251.85	—	—	34,601,238.65	—	437,634,780.76	—	464,718.54	747,687,989.80

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Last year (Re-stated)									
	Attributable to shareholders of the Company							Others	Minority interests	Total shareholders' equity
	Share capital	Capital reserves	Less: Treasury share	Special reserves	Surplus reserves	General risk reserves	Undistributed profits			
I. Balance at the end of last year	243,000,000.00	28,695,256.17			31,141,640.70		336,427,671.18		211,975.30	639,476,543.35
Add: Changes in accounting policy										
Correction of errors of previous years										
Others										
II. Balance at beginning of year	243,000,000.00	28,695,256.17	—	—	31,141,640.70	—	336,427,671.18	—	211,975.30	639,476,543.35
III. Increase/decrease for the year (Decrease is denoted as “-”)										
(1) Net profit		34,606.71	—	—	3,459,597.95	—	63,133,387.72	—	(53,904.70)	66,573,687.68
(2) Other comprehensive income		4,334.26					78,742,985.67		(53,904.70)	78,689,080.97
Sub-total of (1) and (2)		4,334.26	—	—	—	—	78,742,985.67	—	(53,904.70)	78,693,415.23
(3) Contribution from shareholders and reduction of capital										
1. Injection from shareholders										
2. Share-based payment included in the amount of Stockholders' equity										
3. Others										
(4) Profit appropriation										
1. Transfer to surplus reserves					3,459,597.95		(3,459,597.95)			—
2. Transfer to general risk reserves										
3. Dividends paid to shareholders							(12,150,000.00)			(12,150,000.00)
4. Others										
(5) Equity transfer										
1. Transfer of capital reserves to share capital										
2. Transfer of surplus reserves to share capital										
3. Make good of losses by surplus reserves										
4. Others										
(6) Special reserves										
1. Provision for the year										
2. Utilisation of the year										
(7) Others		30,272.45								30,272.45
IV. Balance at end of year	243,000,000.00	28,729,862.88	—	—	34,601,238.65	—	399,561,058.90	—	158,070.60	706,050,231.03

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	This year						Total shareholders' equity	
	Share capital	Capital reserves	Less: Treasury share	Special reserves	Surplus reserves	General risk reserve		Undistributed profits
I. Balance at the end of last year	243,000,000.00	25,917,147.82	—	—	34,601,238.65	—	153,608,403.62	457,126,790.09
Add: Changes in accounting policy								
Correction of errors of previous years								
Others								
II. Balance at beginning of year	243,000,000.00	25,917,147.82	—	—	34,601,238.65	—	153,608,403.62	457,126,790.09
III. Increase/decrease for the year (Decrease is denoted as "(0")	—	3,257,388.97	—	—	—	—	(28,816,172.54)	(25,558,783.57)
(1) Net profit							(16,666,172.54)	(16,666,172.54)
(2) Other comprehensive income		(9,527.61)						(9,527.61)
Sub-total of (1) and (2)	—	(9,527.61)	—	—	—	—	(16,666,172.54)	(16,675,700.15)
(3) Contribution from shareholders and reduction of capital								
1. Injection from shareholders								
2. Share-based payment included in the amount of Stockholders' equity								
3. Others								
(4) Profit appropriation	—	—	—	—	—	—	(12,150,000.00)	(12,150,000.00)
1. Transfer to surplus reserves								
2. Transfer to general risk reserves								
3. Dividends paid to shareholders							(12,150,000.00)	(12,150,000.00)
4. Others								
(5) Equity transfer								
1. Transfer of capital reserves to share capital								
2. Transfer of surplus reserves to share capital								
3. Make good of losses by surplus reserves								
4. Others								
(6) Special reserves								
1. Provision for the year								
2. Utilisation of the year								
(7) Others		3,266,916.58						3,266,916.58
IV. Balance at end of year	243,000,000.00	29,174,536.79	—	—	34,601,238.65	—	124,792,231.08	431,568,006.52

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

For the year ended 31 December 2013

Prepared by: Powerleader Science & Technology Group Limited

Unit: RMB

Item	Last year (Re-stated)							Total shareholders' equity
	Share capital	Capital reserves	Less: Treasury share	Special reserves	Surplus reserves	General risk reserve	Undistributed profits	
I. Balance at the end of last year	243,000,000.00	25,882,541.11			31,141,640.70		134,622,022.08	434,646,203.89
Add: Changes in accounting policy								
Correction of errors of previous years								
Others								
II. Balance at beginning of year	243,000,000.00	25,882,541.11	—	—	31,141,640.70	—	134,622,022.08	434,646,203.89
III. Increase/decrease for the year (Decrease is denoted as "(0"))	—	34,606.71	—	—	3,459,597.95	—	18,986,381.54	22,480,586.20
(1) Net profit							34,595,979.49	34,595,979.49
(2) Other comprehensive income		4,334.26						4,334.26
Sub-total of (1) and (2)	—	4,334.26	—	—	—	—	34,595,979.49	34,600,313.75
(3) Contribution from shareholders and reduction of capital								
1. Injection from shareholders								
2. Share-based payment included in the amount of Stockholders' equity								
3. Others								
(4) Profit appropriation	—	—	—	—	3,459,597.95	—	(15,609,597.95)	(12,150,000.00)
1. Transfer to surplus reserves					3,459,597.95		(3,459,597.95)	—
2. Transfer to general risk reserves								
3. Dividends paid to shareholders							(12,150,000.00)	(12,150,000.00)
4. Others								
(5) Equity transfer								
1. Transfer of capital reserves to share capital								
2. Transfer of surplus reserves to share capital								
3. Make good of losses by surplus reserves								
4. Others								
(6) Special reserves								
1. Provision for the year								
2. Utilisation of the year								
(7) Others		30,272.45						30,272.45
IV. Balance at end of year	243,000,000.00	25,917,147.82	—	—	34,601,238.65	—	153,608,403.62	457,126,790.09

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative

Xu Yueming
Chief Financial Officer

Tang Rongxun
Head of Financial Section



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

I. INFORMATION OF THE COMPANY

Powerleader Science & Technology Group Limited (herein after referred as the “Company”, together with the subsidiaries referred as the “Group”) was formerly known as Shenzhen Powerleader Science & Technology Group Limited. It was a limited liability established in Shenzhen in 1997 and was reformed to a joint stock company in 2001. The business registration licence number is 440301501122438. The registered capital was RMB243 millions. The legal representative is Zhang Yunxia. The registered address of the Company is Room 43A, 43rd Floor, Block C, Electronics Science & Technology Building, Shennan Road Central, Futian District, Shenzhen. The principal place of business is Powerleader Science & Technology Park, 3 Guanyi Road, Guanlan Hi-Tech Industrial Park, Longhua New District, Shenzhen and Unit 105, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

With the approval from China Securities Regulatory Commission on 13 May 2002 via Zhengjianguohezi [2002] No.10 “Reply of the agreement to issue of overseas listed shares by Shenzhen Powerleader Science & Technology Co., Limited”, the Company made an initial public offer at overseas of 220,000,000 ordinary shares (H shares) with par value of RMB0.1 per shares at the price of HK\$0.28 per shares. The shares were subsequently listed at the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited (Stock name: “Powerleader Science & Technology Group”; stock code: 08236). After the initial public offer, the 66,000,000 ordinary shares of the Company originally with par value of RMB1 each were split into 660,000,000 shares with par value RMB0.1 each, comprising 532,290,000 domestic non-tradable natural person shares; and 127,710,000 domestic non-tradable legal person shares; 127,710,000. After the issue, the Company has a total number of 880,000,000 shares.

The Company obtained a fund of RMB50,774,000 from the issue of overseas listed foreign investor H shares. It was verified in January 2003 by PricewaterhouseCoopers Zhong Tian CPAs Limited with a capital verification report Puhuyongdaoyanzi [2003] No.28 issued.

With the approval from China Securities Regulatory Commission on 28 June 2004 via Zhengjianguohezi [2004] No.23 “Reply of the agreement to additional issue of overseas listed shares by Shenzhen Powerleader Science & Technology Co., Limited”, the Company additionally issued H shares of 23 million shares to the public. After the additional issue, the share capital became RMB90,300,000. The above-mentioned changes in capital was verified by Shenzhen Pengcheng Certified Public Accountants Limited on 30 May 2005 with a capital verification report Shenpengsuoyanzi [2005] No.073 issued.

With the resolution passed at the Special General Meeting on 8 October 2007, the registered capital of the Company was increased by RMB135.45 million by transferring from capital reserve and undistributed profits. The registered capital after the change was RMB225.75 million. The above-mentioned capital injection was verified by Shenzhen Office of Shinewing Certified Public Accountants with a capital verification report XYZH/2007SZATS050-2 issued.

Pursuant to the special resolution passed at the Annual General Meeting on 20 May 2010 regarding the general mandate to the board of directors to issue 451.5 million shares to the public, representing 20% issued share capital of the Company as at 20 May 2010. On 28 January 2011, the Company entered into agreement with Shenzhen Jinbo Litong Investment Partnership (Limited Partnership), Shenzhen Jiachong Joint Investment Partnership (Limited Partnership) and Shenzhen Shizhi Zhengli Investment Partnership (Limited Partnership) to issue to them 72.5 million shares, 50 million shares and 50 million shares respectively totalling 172.5 million shares at the issue price of RMB0.25 per shares. The above-mentioned increase in capital was verified by Shenzhen Sijie Certified Public Accountants (General partnership) with a capital verification report Sijieyanzi [2011] No. A21612 issued. The process of changes in Industrial and Business Registration was completed on 25 November 2011.

With the approval from Shenzhen Economic Trading and Information Technology Commission (Shenjingmaoxinxizi [2012] No.1448), Beijing Alice Anderson Technology Development Limited and Shenzhen Luheng Technology Limited transferred the shareholding in the Company of 5.17% and 1% respectively to Tianjin Chengbai Equity Investment Partnership (Limited Partnership) on 18 September 2012. The process of changes in Industrial and Business Registration was completed on 29 October 2012.

With the approvals from Special General Meeting, General Meeting for H shares, General Meeting for domestic shares on 11 November 2013, every 10 shares of the Company with par value of RMB0.1 each were consolidated into 1 share with par value RMB1 each.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

I. INFORMATION OF THE COMPANY (continued)

Up to 31 December 2013, the total share capital of the Company was 243 million shares with par value RMB1, including shares with trading restrictions of 182.25 million shares, representing 75% of total capital; shares without trading restrictions of 60.75 million shares, representing 25% of total capital. The capital structure is as follows:

Unit: RMB'000

Name of company	Amount	Proportion (%)
Shenzhen Powerleader Investment Holdings Limited	102,184.50	42.05
Shenzhen Hengtong Dayuan Electronic Limited	23,958.00	9.86
Harbin Century Longxiang Science & Technology Development Limited	15,963.75	6.57
Tianjin Chengbai Equity Investment Partnership (Limited Partnership)	15,000.00	6.17
Shenzhen Luheng Technology Limited	7,893.75	3.25
Shenzhen Jinbo Litong Investment Partnership (Limited Partnership)	7,250.00	2.98
Shenzhen Jiachong Joint Investment Partnership (Limited Partnership)	5,000.00	2.06
Shenzhen Shizhi Zhengli Investment Partnership (Limited Partnership)	5,000.00	2.06
Overseas listed foreign investor shares	60,750.00	25.00
Total	243,000.00	100.00

The Company is operating in computing industry. The scope of operation is: Computer softwares, hardwares and interface connected equipment; research and development of computer peripherals, production, sales of self-produced products; import and export trading.

The controlling shareholder of the Company is Shenzhen Powerleader Investment Holdings Limited (hereunder referred as "Powerleader Holdings"). The ultimate controllers of the Group are Li Ruijie and Zhang Yunxia. The General Meeting is the authority of the Company. It exercises its rights in accordance with the capacity in deliberating resolutions of significant events such as operating directives, financing, investing, profit appropriations, etc. of the companies. The board of directors is responsible to the General Meeting. It exercises its rights of operating policies in accordance with the authority. Managers are responsible for implementing the resolutions passed by the General Meeting and board of directors; taking charge of the management of production and operations.

The Group has 14 functional departments, they are: President Office, General Management Centre, Procurement Centre, Production Centre, R&D Centre, Products Centre, Branding Centre, Cloud Computing Software Application Centre, Finance Centre, Quality Management Centre, Enterprise Development Department, Securities Investment Department, Internal Audit Department. Major subsidiaries are: Powerleader Computing, Hong Kong Powerleader, Baoteng Internet, Baotong Zhiyuan (the full name of the subsidiaries are set out in Note V.I) etc, and 9 second-level subsidiaries and 2 third-level subsidiaries.

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE

1. Basis for preparation of financial statements

The financial statements have been prepared based on a going concern basis and in accordance with the requirements of "Accounting Standards for Business Enterprises — Basic Standard" and 40 Specific Standards issued by the Ministry of Finance (MOF) of the PRC (including 5 new or revised standards issued January and February 2014), and Application Guidance for Accounting Standards for Business Enterprises, Interpretations to Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS") and also comply with the applicable disclosure requirements of "Regulation of the Preparation of Information Disclosure by Companies Offering Securities to the Public No.15 — General Requirements for Financial Reporting (2010 revised)" issued by China Securities Regulatory Commission, Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

1. Basis for preparation of financial statements *(continued)*

The Group's financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong ("HK GAAP") for disclosure purposes since its listing in Hong Kong. According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Stock Exchange in December 2010, with effect from this financial year, the Group decided to prepare its financial statements in accordance with the "Accounting Standards for Business Enterprises" and other related regulations issued by the China Ministry of Finance ("PRC Accounting Standards"). The adoption of PRC Accounting standards has been applied retrospectively and the comparative financial information for the year ended 31 December 2012 is converted in accordance with PRC Accounting Standards. The reconciliation of net profit and shareholders' equity from HK GAAP to PRC Accounting Standards is set out in Note XVI.2.

2. Statement of compliance of Accounting Standards for Business Enterprises

These financial statements are in compliance with the Accounting Standards for Business Enterprises and present truly and completely the financial position of the Group as at 31 December 2013, and the results of their operation and their cash flows for the year then ended.

3. Accounting period

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

4. Recording currency

The recording currency of the Group is Renminbi ("RMB")

5. Basis of preparation and principle of measurement

The Group's financial statements have been prepared on an accrual basis. Except for financial assets at fair value through profit or loss which are measured at fair value, the financial statements are prepared under the historical cost convention.

6. Business combination

A business combination is a transaction or event that brings together two or more separate enterprises into one reporting entity. The Group recognises assets and liabilities obtained through a business combination at the combination date or acquisition date. The combination date or acquisition date is the date on which the absorbing party or acquirer effectively obtains control of the party being absorbed or acquired.

Business combination is classified into business combination involving entities under common control and business combination not involving entities under common control

(1) *Business combination involving entities under common control*

Assets and liabilities that are obtained through a business combination involving entities under common control are measured at their carrying amounts at the combination date as recorded by the party being combined. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is adjusted to capital reserve (share premium). If the capital reserve (share premium) is not sufficient to absorb the difference, any excess is adjusted to undistributed profits.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

6. Business combination *(continued)*

(2) Business combination not involving entities under common control

The cost of combination of the acquirer and the net identifiable assets obtained in the combination is measured at the fair value at the acquisition date. Where the cost of combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the period after re-assessment.

(3) Acquisition of minority interest of subsidiaries

After obtaining the control over a subsidiary, out of all or part of the minority interests in the subsidiary obtained from its minority shareholders, the assets and liabilities of the subsidiary shall be stated at the amounts calculated continuously from the date of acquisition or merger in the consolidated financial statements. The difference between the increase in the cost of long-term equity investments as a result of acquisition of minority interests and the share of net assets of the subsidiary calculated continuously from the date of the acquisition or merger based on the new shareholding proportion shall be adjusted against the capital surplus. If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining difference shall be adjusted against retained earnings.

7. Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Control exists when the investors has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries controlled by the Group are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, all significant intra-group balances, transactions and unrealised profits are eliminated. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity and net profits respectively. Where the amount of losses for the current period attributed to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess amount is allocated against minority interests.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods between the Company and subsidiaries are inconsistent, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company.

For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date. For subsidiaries acquired from a business combination involving enterprise under common control, they are consolidated at the same date as the Company is under the control of the common controlling party and adjust the opening balances of the consolidated financial statements and comparative financial statements.

8. Cash and cash equivalents

Cash and cash equivalents in the Group's cash flow statement comprise cash on hand, deposits that can be readily drawn on demand and short-term (3 months or less) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

9. Foreign currency translation

Foreign currency transactions are translated into RMB at the fixed rates (January to May 2013: 1 US\$ to RMB6.31; June — December 2013: 1 US\$ to RMB6.2) on balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate of balance sheet date. Exchange differences arising thereon are directly expensed in the profit and loss of current period unless they arise from foreign currency borrowings for the purchase or construction of qualified assets which are eligible for capitalisation. Non-monetary items in foreign currency measured at historical cost shall continue to be translated into the reporting currency at the spot exchange rate at the date of transactions.

Non-monetary items in foreign currencies carried at fair value are translated at the rates prevailing on the date when the fair value was determined.

10. Financial assets and financial liabilities

(1) Financial assets

1) Classification of financial assets

Financial assets are classified into: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. The classification of financial assets is made according to the purposes of investments and the economic substance of the assets

Financial assets at fair value through profit or loss are those financial assets that have been acquired principally for the purpose of selling in the short terms.

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Management has positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets of any other categories upon initial recognition.

2) Recognition and measurement of financial assets

Financial assets are recognized at fair value on the balance sheet when the Group becomes a party to the contract of the financial instruments. Transaction costs for financial assets measured at fair value through profit or loss are directly charged to profit or loss as incurred. Transaction costs for other financial assets are included in their initially recognized amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the profit or loss of the current period. Interests or cash dividends received during the period in which such financial assets are held, are recognized as investment income. On disposal, the difference between the fair value of disposal and the initially recognised amounts are recognised as gain or loss on investment and adjust the gain or loss from changes in fair value at the same time.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

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

(1) Financial assets *(continued)*

2) Recognition and measurement of financial assets *(continued)*

Except for impairment losses and foreign exchange gains and losses from monetary financial assets, changes in fair value of available-for-sale financial assets are recognized directly in shareholders' equity. When the investment is derecognised, the cumulative gain or loss is reclassified from equity to profit or loss. Interests of debts instruments classified as available-for-sale are calculated using effective interest method during the period in which these debt instruments are held and are recognized to profit or loss of current period as investment income. Cash dividends from equity investments classified as available-for-sale is recognised in profit or loss as investment income when the dividends are declared.

3) Impairment of financial assets

Other than financial assets at fair value through profit or loss, the Group assesses the carrying amount of financial assets at each balance sheet date. Impairment loss is provided when there is objective evidence indicating that a financial asset is impaired.

When impairment loss on a financial assets carried at amortised cost has incurred, the amount of loss is provided for at the difference between the assets carrying value and the net present value of the future expected cash flows (excluding future credit loss that has not been incurred). If there is objective evidence indicating that the value of the financial asset recovered and the recovery is objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed and the reversed amount is recognized in profit or loss of current period.

When the fair value of available-for-sale financial assets is significantly or non-temporarily declined, the cumulative losses arising from the decline in fair value that had been recognized directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognized, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognized, the increase in its fair value in a subsequent period is recognized directly in equity.

4) Transfer of financial assets

A financial asset is derecognised when any one of the following conditions is satisfied: (a) the rights to receive cash flows from the asset have expired; (b) the financial asset has been transferred and all risks and rewards relating to the ownership of the Group have been transferred to transferee; or (c) the financial asset has been transferred, although the Group neither transferred nor retained all risks and rewards of the financial asset, the Group gave up its control of the financial asset.

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognizes it as a related financial asset and recognizes the relevant liability accordingly. The extent of the continuous involvement is the extent to which the entity exposes to changes in the value of such financial assets.

Where the financial assets satisfy the derecognition conditions, the difference between its carrying value; and the sum of consideration received for the transfer and accumulated change of fair value previously recorded in other comprehensive income is recognised in profit or loss of current period.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

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

(1) *Financial assets (continued)*

4) *Transfer of financial assets (continued)*

If only part of the financial assets satisfy the derecognition conditions, the carrying amount of the financial asset is allocated between the part that continues to be recognized and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between carrying value of the portion to be derecognised; and the sum of consideration received and accumulated change of fair value previously recorded in other comprehensive income is recognised in profit or loss of current period.

(2) *Financial liabilities*

At initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. The net gain or loss arising from changes in fair value, dividends and interest paid are recognized in profit or loss of current period.

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

A financial liability is derecognised when the underlying present obligations are wholly or partly discharged. The difference between the carrying amount of the portion of financial liability or obligation being derecognised and the consideration paid is recognised in profit or loss of current period.

(3) *Method of determination of fair value of financial assets and financial liabilities*

- 1) Where there is active trading market, the fair value of the financial instruments is determined by reference to the quoted price in the active trading market. In the active trading market, the fair value of financial assets already held by the Group or the financial liabilities that the group is proposed to assume is determined by the current bid price of the corresponding assets or liabilities. The fair value of financial assets that the Group is proposed to acquired or the liabilities already assumed by the Group is determined by the ask price of the corresponding assets and liabilities. Where the financial assets and financial liabilities do not have bid price or ask price, and there are no significant changes in operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by reference to the quoted prices of recent transactions. Where there are significant changes in operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by the quoted price of the most recent transactions as adjusted by reference to the current prices or interest rate. Where there is sufficient evidence to show that the market quoted price of the recent transactions is the fair value of such financial assets or financial liabilities is determined by the quoted price of the recent transaction after making appropriate adjustments.
- 2) Where there is no active trading market for the financial instruments, the fair value of such financial instruments is determined by valuation techniques. Valuation techniques include making reference to the price of recent market transactions by knowledgeable and willing parties; making reference to the current fair value of another financial assets that are the substantially identical to such financial assets; discounting method of cash flows, share option valuation model, etc.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

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

(4) *Offset of Financial Assets and Financial Liabilities*

If the Group has legitimate rights of offsetting the recognized financial assets and financial liabilities, which are enforceable currently, and the Group plans to realize the financial assets or to clear off the financial liabilities by net amount method, the amount of the offsetting financial assets and financial liabilities shall be reported in the balance sheet. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

(5) *Equity instruments*

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

The price received during the issue of equity instrument shall be added to shareholder's equity after deducting the transaction fees.

The consideration paid for re-purchase of equity instrument of the Group and the related transaction cost shall be deducted from the shareholder's equity.

The distribution (excluding the dividends) to the equity instrument holders by the Group shall reduce the shareholder's equity. The Group shall not recognize the changes of the equity instruments' fair value.

11. Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

Impairment of accounts receivables are assessed on both individual basis and portfolio basis.

Criteria for provision for bad debts: Provision for bad debts on receivables is made when the debtors are dissolved, bankrupt, insolvent, in significant financial difficulty, or suspended its business due to natural disaster and unable to settle the debts in the foreseeable period; or the receivables are defaulted for more than 1 years; or when there are objective evidences indicating the debts are not recovered or not likely to be recoverable.

Provision for bad debts is made using allowance account method. At the balance sheet date, receivables are assessed for impairment on individual or portfolio basis. Provision for bad debts is recognised in the profit or loss for the period. When there are objective evidences indicating the receivable are considered recoverable, it is written off against the allowance account according to the approval procedures of the Group.

(1) *Receivables that are individually significant and provided for bad debts on individual basis*

Recognition criteria of individually significant receivable

Receivable of more than RMB5 million is regarded as individually significant receivable

Method of provision for bad debts for individually significant receivables on individual basis

Provision for bad debts is made as the excess of the carrying amount over the present value of the estimated future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

11. Receivables *(continued)*

(2) Receivables that are provided for bad debts on portfolio basis

Basis for determination of portfolio

Aged group	The group of credit risk characteristics is determined by the aging of the receivables.
Related party group	The group of credit risk characteristics is determined by relationships of the parties of transaction with the Group.
Collateral group	The group of credit risk characteristics is determined by nature of transaction.
Long-term strategic co-operating units	The group of credit risk characteristics is determined by relationships of the parties of transaction with the Group.

Method of provision of bad debts on portfolio basis

Aged group	Aging analysis
Related party group	Generally, no provision will be made
Collateral group	Generally, no provision will be made
Long-term strategic co-operating units	Certain proportion based on aging analysis

1) Proportion of provision for bad debts for aged group:

Aged	Proportion to accounts receivable (%)	Proportion to other receivables (%)
0 to 3 months	0	0
3 months to 1 year	5	5
1 to 2 years	20	20
2 to 3 year	40	40
3 to 4 years	60	60
4 to 5 years	80	80
Over 5 years	100	100

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

Related party group	Provision for bad debts are generally not made for related parties of the Group (such as jointly controlled entities and associates) where the difference between the present value of future cash flows and their carrying amount is small.
Collateral group	Provision for bad debts are generally not made for those such as rental deposits, advanced payment for purchases and petty cash where the difference between the present value of future cash flows and their carrying amount is small.
Long-term strategic co-operating units	1% for aged in 3 months to 1 year; 2% for aged in 1 to 2 years

(3) Receivables that are individually insignificant but provided for bad debts individually

Reason for bad debts provision made individually	Receivables with individually insignificant amount and provision for bad debts made on portfolio basis cannot reflect its credit risk characteristics.
Method of provision	Provision for bad debts is made as the excess of its carrying amount over the present value of the estimated future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

12. Inventories

Inventories include raw materials, packaging material, low-value consumables, work in progress and finished goods etc.

Inventories are recorded at cost of purchase when received. Cost is calculated using weighted average method when the inventories are issued for consumable. Low value consumables and packaging material are amortised in one-time written off.

At the balance sheet date, inventories are stated at the lower of costs or net realisable value. Where the inventories become damaged, partially or wholly obsolete or whose selling price is lower than its cost, provision for inventory impairment is made for the excess of its cost and net realisable value. For inventories with tremendous number and relatively low unit price, provision is determined according to the type of inventory.

Net realisable value of finished goods, work in progress or held-for-sale raw materials are determined by their estimated selling price less estimated selling expenses and related taxes. Net realisable value for raw material for held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

The Group maintains a perpetual inventory system.

Low-value consumable, packaging materials are amortized by one-time write-off.

13. Long-term equity investments

Long-term equity investments include equity investments in entity over which the Group has control, joint control or significant influence; and equity investments in entity over which the Group does not have control, joint control or significant influence and it has no quoted price in an active market and the fair value cannot be reliably measured.

Subsidiaries are the investees over which the Company is able to exercise control. Joint ventures are the investees over which the Group is able to exercise joint control together with other venturers. Associates are the investees that the Group has significant influence on their financial and operating policies.

(1) Basis for determining the existence of control, joint control or significant influence over an investee

Control is the power to govern the financial and operating policies of the investee so as to obtain benefits from its operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights over the investee is considered, such as convertible debts and warrants currently exercisable, etc.

Jint control is the contractually agreed sharing of control over an investee's economic activities. The existence of joint control is mainly based on whether no single investor is in a position to control the investee's operating activities unilaterally; the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing the control.

Significant influence exists when the investor has the power to participate in the investee's financial and operating policy decisions, but not able to control or joint control, together with other parties, the formulation of these policies. The existence of significant influence is mainly based on whether the Group directly or indirectly owned 20% or more but less than 50% shares with voting rights in the investee company. Significant influence can not be established where there are objective evidences indicating that the Group is incapable of participating in the decision-making of operating policies in the investee company.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

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

(2) Initial measure of long-term equity investment

For long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date. The difference between the investment cost and the amount of cash paid, non-cash assets transferred, the carrying value of liabilities resumed and par value of the Company's equity issued is adjusted to capital reserve. Where the capital reserve is not sufficient to absorb the difference, the difference will be adjusted to retained earnings.

For long-term equity investments acquired through a business combination not involving enterprises under common control, the investment cost shall be the fair value at the date of combination (acquisition) of the assets given up, liabilities incurred or committed and equity instruments issued. Where the cost of combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the period after re-assessment.

For long-term equity investment acquired by payment in cash, the investment cost shall be the purchase price actually paid;

For long-term equity investment acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued;

For long-term equity investment injected to the Group by the investor, the investment cost shall be the consideration as specified in the relevant contract or agreement;

For long-term equity investment acquired through transactions such as debts restructuring, exchange of non-monetary assets, the cost of investment shall be determined according to the relevant accounting standards.

(3) Subsequent measurement of long-term equity investments

Investments in subsidiaries are accounted for by the Company's financial statements using cost method and adjusted for by equity method in preparation of consolidated financial statements. Investments in joint ventures and associates are accounted for using equity method. Long-term investments in equities over which the Group do not have control, joint control or significant influence and do not have quoted market price in active markets and their fair value cannot be reliably measured are accounted for using cost method. Long-term investments in equities over which the Group does not have control, joint control or significant influence but have quoted prices in active market and their fair value can be measured reliably are accounted for as available-for-sale financial assets.

Under the cost method, long-term equity investments are measured initially at its investment cost, and adjusted by the amount of additional investment and the amount recovered. Cash dividend or profits distribution declared by the investee are recognized as investment income of current period.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

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

(3) Subsequent measurement of long-term equity investments *(continued)*

Under the equity method, investment gain or loss of current period represents the Group's share of the net profits or losses made by the investee for the current period. For changes in owners' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital reserve (Other capital reserve), provided that the Group's proportion of shareholding in the investee remains unchanged. The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. The unrealised gain or loss from internal transactions entered into between the Group and its associates and joint ventures is offset according to the shareholding attributable to the Group and accounted for as investment income and loss based such basis. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Where the Group has no longer joint control or significant influence in the investee company as a result of reduction of the investment and there are no quoted prices for the investment in active market and its fair value cannot be measured reliably, it will be changed to be accounted for using cost method. Where the Group obtain control over the investee company as results from such as making additional investment, the long-term equity investments will also be changed to be accounted for using cost method. Where the Group obtain joint control or significant influence over the investee company as results from such as making additional investment or where Group has no longer control but remain joint control or significant influence over the investee company as results from such as partially disposal of the investment, the investment will be changed to be accounted for using equity method.

(4) Disposal of long-term equity investments

On disposal of a long-term investment, the difference between the carrying amount of the investment and the actual consideration paid is recognized in current profit or loss. Where the equity method is adopted, the amount attributable to the long-term equity investments previously included shareholders' equity shall be transferred to current profit or loss on a pro-rata basis.

(5) Impairment of long-term equity investments

The Group assesses at each balance sheet date whether there is any indication that any long-term equity investments in subsidiaries, jointly controlled entities and associates may be impaired and estimate its recoverable amount. If the recoverable amount of an asset is less than its carrying amount, the reduction is recognized as an impairment loss and charged to profit or loss for the current period. For other long-term equity investments which are not quoted in an active market and whose fair values cannot be reliably measured, the excess of their carrying amounts over the present values of future cash flows discounted at the prevailing market yield rate for similar financial assets is recognised as impairment loss and cannot be reversed once recognised.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

14. Investment properties

Investment property refer to real estate held to earn rentals or for capital appreciation, or both, including leased land use rights, land use rights held and provided for transfer after appreciation and leased construction.

Investment property is initially measured at cost. The cost for investment properties purchased from outsiders includes purchase prices, related taxes and directly attributable expenditure. The cost of self-constructed investment properties includes construction expenses incurred bringing the assets to the status of intended use.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

Class	Depreciable period (Year)	Estimated residual value (%)	Annual depreciation rate (%)
Land use rights	50	—	2.00
Building	20–50	5.00	1.90–4.75

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset is reclassified as investment properties at its carrying amount at the date of the transfer.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

15. Fixed assets

Fixed assets are tangible assets that are held for use in the production of goods or supply of services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year.

Fixed assets include buildings, plant and machinery, motor vehicles, office equipment and others. The cost of fixed assets is initially measured at cost. The cost of fixed assets purchased from outsiders includes purchase prices, related taxes and necessary expenses incurred bringing the assets to the status of intended use. The cost of self-constructed fixed assets includes construction expenses incurred bringing the assets to the status of intended use. The cost of fixed assets injected by investors to the Group is measured at the considerations as specified in the investment contracts or agreements. In the case where the consideration of the contracts or agreements is not a fair value, the assets will be recorded at their fair value. The cost of fixed assets acquired under fiancé lease arrangement is measured at the lower of their fair value and the present value of the minimum lease payment at the inception of the leases.

Subsequent expenditures relating to fixed assets, such as repairing expenditures, renovation and improvements, are recognised as the cost of the assets if they meet the recognition criteria. The carrying amount of the replaced parts is derecognised. Other subsequent expenditures not meeting the recognition criteria are all charged in the profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

15. Fixed assets *(continued)*

Except for those assets that are fully depreciated but still in use and lands that are separately recorded, depreciation is provided for fixed assets over their estimated useful lives of the fixed assets using the straight-line method. Depreciation charge is included in the cost of relevant assets or expenses for the period according to the usage of the fixed assets. The depreciable period, estimated residual value and annual depreciation rate of each class of fixed assets are as follows:

No.	Class	Depreciable period (years)	Estimated residual percentage (%)	Annual depreciation rate (%)
1	Buildings	20 to 50 years	5.00	1.90 to 4.75
2	Plant and Machinery	5 to 10 years	5.00	9.50 to 19.00
3	Motor vehicles	10 years	5.00	9.50
4	Office equipment	3 to 5 years	5.00	19.00 to 31.67
5	Others	5 years	5.00	19.00

The Group reviews the estimated useful life and estimated net residual value of a fixed asset and the depreciation method at the end of each financial year. Any changes are accounted for as a change in an accounting estimate.

A fixed asset is derecognised when it is disposed or expected not bringing economic benefit through use or disposal. Proceeds from disposal, transfer, retirement or damage of the asset net of the carrying amount and related taxes is recognised in profit or loss for the current period.

16. Construction in progress

Cost of construction in progress is measured at the expenditure actually incurred for the construction. Cost of self-operating construction is measured at cost of direct materials, direct wages, and direct construction expenditures. Cost of sub-contracting construction is measured at the amount of construction cost payable. Cost of equipment installation work is measured at cost of the equipment being installed, installation expenses, and test running expenditures. Cost of construction in progress also includes capitalised borrowing costs and exchange difference.

Construction in progress is transferred to the fixed assets when the assets are ready for their intended use at an estimated amount based on the construction budget, construction price, or actual cost of construction. Depreciation is provided for from the next month of the transfer. The cost of the asset will be adjusted when the construction finalisation procedures are completed.

17. Borrowing cost

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period.

Qualifying assets are assets (fixed assets, investment property, inventories) that necessarily take a substantial period of time (usually more than 1 year) for acquisition, construction or production to get ready for their intended use or sale.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

17. Borrowing cost *(continued)*

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period. For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

During the capitalisation period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognised as a financial expense in the period in which they are incurred.

Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

18. Intangible assets

Intangible assets include land use rights, patented technologies and non-patented technologies.

Intangible assets are initially recognised at cost. The cost of intangible assets purchased from outsiders includes purchase prices and necessary expenses. The cost of intangible assets injected by investors to the Group is measured at the considerations as specified in the investment contracts or agreements. In the case where the consideration of the contracts or agreements is not a fair value, the assets are measured at its fair value.

Intangible with finite useful lives are amortised over from the month of purchase using straight-line method. Land-use rights are amortised over lease terms from the date of purchase. Patented technologies, non-patented technologies and other intangible assets are amortised over the shortest of their estimated useful lives, contractual beneficial period and useful life specified in the law. Amortisation charge is included in the cost of assets or expenses, as appropriate, for the period according to the usage of the assets.

The Group reviews the estimated useful life and estimated net residual value of the intangible asset with finite useful lives and the amortization method at the end of each financial year. Any changes are accounted for as a change in an accounting estimate.

The estimated useful lives of intangible assets with indefinite useful lives are reviewed in each accounting period. Where there are objective evidences that the useful life of the intangible assets become definite, then the useful life of the assets is estimated and amortisation is provided over its estimated useful life.

If there is any conclusive evidence that an intangible asset may be impaired, the asset will be tested for impairment, the Group will conduct impairment test for the intangible assets with finite useful lives at the end of the financial period. Intangible asset with infinite useful lives are tested for impairment annually, no matter whether there is any indication that the asset may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

19. Research and development expenditure

Research and development expenditures is classified into expenditure on the research phase and expenditure on the development phase according to the nature of expenditures and uncertainty of the final achievement.

Expenditure on the research phase is expensed in the period as incurred.

Expenditure on the development phase is recognised as an intangible asset only when all of the following conditions are satisfied:

- (1) it is technically feasible that the intangible asset can be used or sold upon completion;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; or there is market for the intangible asset itself;
- (4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

Expenditure not meeting the above recognition conditions are expensed in the period as incurred. Expenditure expensed in prior periods will not be recognised as an asset in subsequent periods. Capitalised expenditure on the research phase are stated in the balance sheet as 'Development Expenditure' and transfer to as 'Intangible assets' when it gets ready for their intended use.

20. Goodwill

Goodwill represents the excess of the cost of equity investment or cost of business combination not under common control over the Group's share of the net identifiable assets of the invested company or acquiree at the date of acquisition or combination.

Goodwill relating to subsidiaries is presented in consolidated financial statements as a separate item. Goodwill relating to associates or joint ventures is included in the carrying amount of the long-term equity investment.

21. Long-term prepayments

Long-term prepayments are expenditures that have been incurred but shall be amortised over the current period and subsequent periods of more than one year. The expenditures are amortised evenly over the estimated beneficial period. If the long-term prepayments are no longer beneficial to the subsequent accounting periods, the unamortised balance will then be transferred to profit or loss for the period.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

22. Impairment of non-financial assets

The Group assesses at each balance sheet date whether there is any indication that fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured by cost model, investments in subsidiaries, jointly controlled entities and associates may be impaired. If there is any indication that an asset may be impaired, the asset will be tested for impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

23. Employee benefits

Employee benefits include short-term salaries, post-employment benefits, termination benefits and other long-term staff welfare.

- (1) Short-term salaries include: staff salaries or wages, bonuses, allowances and subsidies, staff welfare, medical insurance, injury insurance, maternity insurance, housing provident fund, union operation cost and staff education cost, short-term compensated leave, short-term profit appropriation scheme, non-monetary welfare and other short-term remuneration.
- (2) Post-employment benefits include: pension, unemployment insurance of the social security scheme, mandatory providents funds organized by the government authorities.
- (3) Termination benefits include: where the Group terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from termination of the employment relationship with employees is recognised, with a corresponding charge to profit or loss when the Group has made a formal plan for termination of the employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Group unilaterally.

Employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in the cost of relevant assets or expenses in the current period. The Compensation to employees for termination of the employment relationship are charged to the profit or loss of current period.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

24. Share-based payments

Share-based payment represents transactions in which the Company receives services from employee or other suppliers by granting equity instruments or incurring liabilities that are based on the price of the equity instruments to the employee or other suppliers. Share-based payments are classified into equity-settled share-based payments and cash-settled share-based payments

(1) Equity-settled share-based payment

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfilment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant, Such fair value during the vesting period of service or before the prescribed exercisable conditions are achieved is recognised as relevant cost or expense on a straight-line during the vesting period based on the best estimated quantity of exercisable equity instruments.

The fair value of the shares granted to the employee are determined according to the market price of the entity's shares and adjusted by such considerations as the terms and conditions of the grant (not including those exercisable conditions other than market conditions).

For the share options granted to the employee, if there are no transactions of options with similar terms and conditions, their fair value will be determined by the option valuation model.

(2) Cash-settled share-based payments

The liabilities assumed by the Group are for cash-settled share-based payments are measured based on the fair value of shares or other equity instruments. Instruments which are vested immediately upon the grant, the fair value of the liabilities are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfilment of performance conditions, at each balance date during the vesting period, the Group re-measure the fair value of the liabilities based on the best estimate of exercisable conditions and debits the cost or expenses of the service received for the period and adjust the liabilities accordingly.

(3) Basis for best estimates of exercisable equity instruments

At each balance sheet date during the vesting period, the best estimates of the exercisable equity instruments are based on information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc.

(4) Accounting treatment regarding the modification, termination of share-based payment

Where the terms of an equity-settled award are modified to increase the fair value of the instrument granted, additional cost of service received shall be recognized. Where the terms of an equity-settled award are modified to increase the number of instruments granted, the cost of service received shall be increased correspondingly by the fair value of the additional equity instrument granted. Where the terms of an equity-settled share-based payment are modified to the advantages to the exercisable conditions of the employee, the exercisable conditions are to be traded according to the modified terms.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

24. Share-based payments *(continued)*

(4) Accounting treatment regarding the modification, termination of share-based payment *(continued)*

Where the terms of an equity-settled share-based payment are modified to reduce the fair value of the instrument granted, the cost of services received are continued to be recognized at the fair value at the date of grant. The reduction in fair value of the instruments is not considered. Where the terms of an equity-settled share-based payment are modified to reduce the number of instruments granted, the reduced portion is treated as if cancelled. Where the terms of an equity-settled share-based payment are modified to the disadvantages to the exercisable conditions of the employee, the exercisable conditions are to be traded as if the terms had not been modified.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

25. Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint arrangements are classified into a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator shall recognise all or in the contractual proportion of the assets, liabilities, revenue, and expenses in the joint operation.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The initial recognition, subsequent measurement and derecognition are accounted for according to the Accounting Standards for Business Enterprises No. 2 — Long-term equity investments.

26. Provisions

Provision is recognised for an obligation related to a contingency, such as guarantee given to external parties, discounted commercial notes, pending litigation or arbitration, product quality warranty, as a liability when all of the following conditions are satisfied: the obligation is a present obligation to the Group; it is probable that an outflow of economic benefits from the Group will be required to settle the obligation; the amount of the obligation can be measured reliably.

Provision is measured at the best estimate of the consideration required to settle the present obligation taking into account the risks and uncertainties surrounding the obligation. Where the effect of time value of money is material, the amount of provision is measured using the cash flows estimated to settle present obligation. Provisions are reviewed at each balance sheet date. If there are any changes, the carrying amount of provisions will be adjusted to reflect the current best estimate.

Provisions are reviewed at each balance sheet date. If there are any changes, the carrying amount of provisions will be adjusted to reflect the current best estimate.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

27. Recognition of revenue

The operating revenues of the Group mainly included revenue from sales of goods, rendering of services and transferring of assets use rights. The principles of revenue recognition are as follows:

(1) Revenue from sales of goods

Sales of goods are recognised when the major risks and returns of the ownership of commodities are transferred to customers; the Group has no longer retained continuous management rights generally associated with the ownerships; the Group has no longer effective control over the commodities sold; the amount of revenue can be reliably measured; it is very likely that the economic benefits will be flowed to the Company; and when the related costs that has incurred or will be incurred can be reliably measured.

The detailed revenue recognition method are as follows:

- 1) Recognised after the products are acknowledged: Revenue is recognised when the product are delivered and obtained the acknowledgement from the recipient specified by the customer; the cost of the product can be reliably measured.
- 2) Recognised after the products are acknowledged and tested: Revenue is recognised when the product is properly installed and tested; "pass slip" are 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 are recognised when the services are rendered and invoices are issued. Revenue from provision of maintenance services are recognised when the maintenance services are rendered and the relevant product are passed to the customer.

(3) Revenue from transfer of assets use rights

Revenue from transfer of asset use rights is recognised when the associated economic benefits are probably flow to the Group and the amount of revenue can be reliably estimated. The details are: Rental income from investment properties and fixed assets are recognized accounting to the lease period specified in the agreements.

28. Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration but not including those capital injection to the Group by the government in the capacity of an investor. Special funds contributed by the government which are required by the relevant national document to be treated under capital reserve and they are also not belong to capital contribution are not regarded as government grants.

A government grant is recognised when the Group complies with the conditions attaching to the grant and when the Group is able to receive the grant.

Where a government grant is in the form of a transfer of monetary asset, it is measured at the amount received. Where a government grant is made on the basis of fixed amount or there are conclusive evidence at the end of the period that the Group the conditions attaching to the grants are satisfied and it is expected the Group is entitled to received the grant, it is measured at the amount receivable.

Where a government grant is in the form of a transfer of non-monetary asset, it is measured at fair value. If fair value cannot be determined reliably, it is measured at a nominal amount of RMB1.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

28. Government grants *(continued)*

Government grants are classified into asset-related government grants and income-related government grants. Assets-related government grants are those grants obtained for the purpose of acquisition or construction or in other ways to form long-term assets. Income-related government grants are those government grants other than the asset-related government grants. Where the document from the government has not specified the object to be granted, it will be determined according to the above principle.

An asset-related government grant is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset.

For an income-related government grant, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognized immediately in profit or loss for the current period.

Where a government grant recognized by the Group is to be returned to the government, the repayment shall be off set against the carrying amount of the deferred income if there is any balance of deferred income in connection of the grant. Any excess shall be recognized in profit or loss for the current period. If there is no balance of deferred income in connection with the grant, the repayment shall be recognized immediately in profit or loss for the current period.

29. Deferred income tax assets and deferred income tax liabilities

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

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference. On the balance sheet date, the carrying value of the recognised deferred income tax assets is reviewed. If it is very likely that no future taxable profits will be available to deduct the deferred income tax assets, the carrying value of the deferred income tax assets will be reduced. If it is very likely that sufficient taxable profits will be available, the amount reduced will be reversed.

The Group recognizes deferred income tax liabilities arising from the temporary difference on tax payable related to investment in subsidiaries, associates and jointly controlled entities, unless the Group could control the timing of write back of the temporary difference, and such temporary difference is unlikely to be written back in foreseeable future. For the deductible temporary difference related to investment in subsidiaries, associates and joint venture, the Group will only recognize deferred income tax assets when temporary difference is likely to be written back in the foreseeable future and income tax payable could be utilized to deduct the deductible temporary difference.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

30. Lease

Leases are classified as finance leases and operating leases at the date of inception.

(1) Assets leased out under finance leases

The Group recognises the aggregate of the minimum lease receipts and the initial direct costs on the lease inception date as the finance lease receivables. Meanwhile the unguaranteed balance is recorded. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed amount and their respective present values shall be recognized as unrealised finance income. The unrealised finance income is allocated and recognize as finance lease income over the lease period by effective interest rate method.

At the end of each balance sheet date, the unguaranteed balance is reviewed. Where the unguaranteed amount is increase, no adjustment will be made. Where there are evidence indicating the unguaranteed balance has decreased, the implicit interest rate of the lease will be re-calculated and charged to profit or loss for the year. The finance lease income of subsequent period is recognized based on the revised net amount of lease investment and the re-calculated implicit interest rate of the lease. The net amount of the lease investment is the difference of the aggregate of minimum lease receipts and unguaranteed balance and the unrealised finance lease income.

Where the recognized loss of the unguaranteed balance is recovered, it will be reversed from the originally recognized investment and re-calculate the implicit interest rates of the lease. The finance income of subsequent period is recognized based on the revised net amount of lease investment and the re-calculated implicit interest rate of the lease.

Contingent lease income is recognized to the profit or loss for the period as it occurs.

(2) Assets leased under operating leases

Rental expense for leasing assets under operating leases is recognized in the relevant cost of the asset or profit or loss for the period using the straight-line method over the lease term. Initial direct cost is recognized in income statement as it is incurred. Contingent rent is charged to profit or loss for the period as it incurred.

(3) Assets leased out under operating leases

Income derived from leasing out of assets under operating leases is recognized in the income statement using the straight-line method over the lease term. Initial direct costs in respect of the assets leased out are charged to profit or loss immediately. If the initial direct costs are material, the costs are initially capitalized and subsequently amortized in profit or loss over the lease term on the same basis as the lease income. Contingent rent is charged to profit or loss for the period as it incurred.

31. Accounting for income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are deal with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying value of goodwill. All other current tax and deferred tax are recognises in the profit or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprises in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred income tax assets and deferred tax liabilities that should be recognised using the balance sheet liabilities approach at the end of period and their balances originally recognised.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

32. Segment reporting

The Group determines the operating segments on the basis of internal structure, management requirements and internal reporting system, and determines reporting segments based on the operating segments.

An operating segment is a component of the Group that may earn revenue and incur expenses in daily business activities; operating results of which are regularly reviewed by the Group's management to allocate its resources and assess its performance; and for which discrete financial information on financial positions, operating results and cash flow is available. Two or more operating segments with similar economic characteristics can be aggregated into one operating segment if they meet certain conditions.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the financial statements.

33. Held for sale and discontinued operations

A non-current asset or a component of the Group satisfying the following conditions is classified as held for sale: the Group has made a resolution for disposal of the non-current asset or the component; an irrevocable contract with the transferee has been signed and; the transfer will be completed within one year.

Non-current assets, except for financial assets and deferred tax assets, that satisfy the recognition criteria for held for sale are included in other current assets at the amount equal to the lower of the fair value less costs to sell and the carrying amount. Any excess of the original carrying amount over the fair value less costs to sell is recognised as an asset impairment loss.

Discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and can be distinguished from other component

34. Key sources of estimation uncertainty and accounting judgements

In the preparation of financial statements, the management of the Group are required to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The following are the estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future periods.

(1) *Impairment loss of receivables*

As mentioned in Note II.11, receivables are measured at amortization cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognised. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is objective evidence of a recovery in value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is reversed.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

34. Key sources of estimation uncertainty and accounting judgements *(continued)*

(2) Provision for impairment of inventories

As mentioned in Note II.12, the Group reviews the net realisable value of inventories regularly. Provision for impairment of inventories is recognized for the excess of inventories' carrying amounts over their net realizable value. The Group determines the estimated net realizable value of inventories based on the estimated selling price of similar inventories less estimated costs to completion and estimated costs necessary to make the sale and related taxes. When the realized selling price or costs or expenses are different with previous estimates, the Group should adjust the net realizable values of inventories. Therefore, the estimates based on current experience may be different with the actual situation, which could result in adjustment to the carrying amount of inventories on balance sheet. The net profit or loss may then be affected in the period when the provision for diminution in value of inventories is adjusted.

(3) Accounting estimates of impairment of goodwill

The Group tests annually whether goodwill had suffered any impairment. The recoverable amount of asset groups and groups of assets is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates.

If management revises the gross margin that is used in the calculation of the future cash flows of assets groups and groups of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

If the actual gross margin/pre-tax discount rate is higher/lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

(4) Accounting estimates of impairment of fixed assets

The Group conducts impairment tests on fixed assets, such as buildings and machinery, etc, with impairment indicators exists at the balance sheet date. The recoverable amounts of the fixed assets have been determined based on the higher of an asset's fair value less costs to sell and value in use calculations. These calculations require the use of accounting estimates.

If management revises the gross margin that is used in the calculation of the future cash flows of assets groups and groups of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against fixed assets.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against fixed assets.

If the actual gross margin/pre-tax discount rate is higher/lower than management's estimates, the impairment loss of fixed assets previously provided for is not allowed to be reversed.

(5) Accounting estimates of deferred tax assets

The estimates of deferred tax assets require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The realization of deferred tax assets depends on the realization of sufficient profitability (taxable profit) of the Group. The change in future income tax rates and timing of reversals of taxable temporary differences would affect income tax expenses or benefits and balance of deferred tax. Any changes in the above estimates could result in material adjustment to the carrying amount of deferred income tax.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

II. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE *(continued)*

34. Key sources of estimation uncertainty and accounting judgements *(continued)*

(6) Useful lives of fixed and intangible assets

The Group reviews the estimated useful lives for its fixed assets and intangible assets at least once at the end of the year. The estimated useful lives are determined by management by reference to the historical experience of similar assets, the estimation generally used by other companies in the same industry and anticipated renovation in technologies. When there are significant changes in previous estimates, the Group should adjust the depreciation and amortisation expense in future periods.

III. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS OF PRIOR PERIODS

1. Changes in accounting policies and accounting estimates and their effect

(1) Changes in accounting policies, accounting estimates according to the requirements of Accounting Standards for Business Enterprises ("ASBE")

The Group has adopted the 5 new and revised ASBE issued by MOF of the PRC in January to February 2014 as from 1 January 2013. These new and revised accounting standards were: ASBE No. 9 (Revised) — Employee's emoluments, ASBE No. 30 (Revised) — Presentation of financial statements, ASBE No. 33 — Consolidated financial statements, ASBE No 39 — Measurement of fair value, ASBE No 40 — Joint arrangements. The adoption of the new and revised ASBE did not have impact on the recognition, measurement and presentation of relevant items in the 2013 financial statements. The details are as follows:

1) ASBE No. 9 (Revised) — Employee's emoluments

In accordance with the standard of employee's emoluments, the Group accounting policies of employee's emoluments were revised. This change belonged to financial statements figures adjustment and note items presentation adjustments: i) the item of post-employment benefits; accumulated compensated leave were added in employee's emolument payables. The basic pension, unemployment insurance under the original Social security item" were adjusted to a new item "Post-employment benefits"; ii) the accumulated compensated leave was changed to the profit or loss for the period. The details are set out in Note VI. 21, Note XV.19. This change in accounting policies was accounted for using prospective method. The implementation of this standard has no impact on the financial statements of the Group.

2) ASBE No. 30 (Revised) — Presentation of financial statements

In accordance with the standard of presentation of financial statements, the Group i) revised the original balance item "financial assets/liabilities held for trading" to as "Financial assets/liabilities at fair value through profit or loss"; ii) added two items of "Other comprehensive income which can be recycled to profit or loss in subsequent accounting periods if conditions are satisfied" and "Other comprehensive income which cannot be recycled to profit or loss in subsequent accounting periods" under the original "Other comprehensive income" income statement item; iii) added the breakdown of expenses by nature for the "Expenses" (including operating costs, selling expenses and administrative expenses". The details were set out in Note VI.2.53 and supplementary information 4. This change in accounting policies was accounted for using retrospective method. The implementation of this standard has no significant impact on the financial statements of the Group.

3) ASBE No. 33 — Consolidated financial statements

The definition of "Control" was revised in accordance with the standard of consolidated financial statements. The details were set out in Note II.7.13. This change in accounting policies was accounted for using retrospective method. The implementation of this standard has no impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

III. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS OF PRIOR PERIODS *(continued)*

1. Changes in accounting policies and their effect *(continued)*

(1) *Changes in accounting policies, accounting estimates according to the requirements of Accounting Standards for Business Enterprises ("ASBE") (continued)*

4) *ASBE No. 39 — Measurement of fair value*

The Group originally implemented the HK GAAP. The accounting policies of measurement of fair value were revised in accordance with the standard of fair value measurement. The measurement of fair value of "Foreign currency forward contract" was added. The details were set out in Note XIII.2. This change in accounting policies was accounted for using retrospective method. The implementation of this standard has no significant impact on the financial statements of the Group.

5) *ASBE No. 40 — Joint arrangements*

The definition of jointly controlled entities was revised in accordance with the standard of Joint Arrangements. The details were set out in Note II.25. As the Group has no joint arrangements, the implementation of this standard has no impact on the financial statements of the Group.

(2) *Changes in pricing method of inventories*

In order to reflect the inventories of the Group more objectively and timely and to let management have information of the price fluctuation and the total amount of inventories more timely and to enhance the inventories management of the companies, with the approval from the Group management, with effect from 1 October 2013, the pricing method for issue of raw materials was amended from the original method of first-in-first-out to weighted average method. This change in the pricing method of inventories would not have substantial effect on the Group's shareholder's equity, net profit indicators for the reporting period. As it is not possible to ascertain the accumulative effect for such change under retrospective method, such change was accounted for using prospective method. The disclosed financial reports of the recent two years were not be adjusted retrospectively.

2. Correction of errors of prior periods and their effect

There are no corrections of errors of prior periods made prospectively.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

IV. TAXATION

1. Enterprise Income Tax ("EIT")

Pursuant to the regulations of State Tax Bureau, the charge of EIT for the Company and the subsidiaries operating at other cities of the Mainland are at the tax rate of 25% on the assessable profits. Subsidiaries operating in Hong Kong are charged at the rate of 16.5% on the estimated assessable profits.

The rates of EIT applicable to the Company and subsidiaries are as follows: (Full name of subsidiaries are set out in Note V.1)

Name	Statutory tax rate	Actual implementation tax rate		Entitlement of preferential tax incentives
		2013	2012	
The Company	25%	15%	15%	Accredited as "High-New Technology Enterprises" in 2012 and enjoying preferential tax incentive where EIT tax rate was reduced to at 15%. Preferential period is 2012 to 2014.
Powerleader Computing	25%	15%	15%	Accredited as "High-New Technology Enterprises" in 2011 and enjoying preferential tax incentive where EIT tax rate was reduced to at 15% and allow an extra 50% of research and development expenses to be deducted in arriving at income chargeable for EIT. Preferential period is 2011 to 2013.
Baoteng Internet	25%	25%	25%	
Powerleader Software	25%	12.5%	12.5%	Accredited as "High-New Technology Enterprises" in 2011 and enjoying preferential tax incentive where EIT tax rate was reduced to at 15% and allow an extra 50% of research and development expenses to be deducted in arriving at income chargeable for EIT; enjoying preferential tax incentive for enterprises engaging in softwares and IC designs where EIT is fully exempted commencing from 2009 for two years and followed by a 50% tax reduction for the next three years from 2013.
Powerleader Communication	25%	25%	25%	
Powerleader Property	25%	25%	25%	Approved collection: $\text{Cost}/(1-10\%)\times 10\%\times 25\%$
Baotong Zhiyuan	25%	25%	25%	
Baozhongyun	25%	25%	25%	
Baodeyun	25%	25%	25%	
Nanjing Powerleader	25%	25%	25%	
Hong Kong Powerleader	16.5%	16.5%	16.5%	Applicable rates of Hong Kong profits tax
Ex-channel	16.5%	16.5%	16.5%	Applicable rates of Hong Kong profits tax
Binhai Powerleader	25%	25%	25%	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

IV. TAXATION (continued)

2. Value added tax ("VAT")

The rate of VAT on domestic sales for subsidiaries, being a general VAT tax payer, is 17%. The VAT paid on purchase of materials can be offset with the VAT on sales. The tax rate is 17%. The amount of VAT payable is the net amount of VAT on sales less input VAT on purchases for the period.

The income of the subsidiary Shenzhen Baoteng Internet Technology Limited providing CDN is applicable to the tax rate for Information Technology Services at 6%.

Tax incentive

In accordance with the requirements of "Notice of Ministry of Finance, State Tax Administration Bureau regarding VAT policy on software products" Caishui [2011] No. 100 and the notice of "VAT Instant-pay and instant-refund Management Method for Software products of Shenzhen" (No. 9 of 2011) issued by Shenzhen State Tax Administration Bureau, the subsidiary Shenzhen Powerleader Software Development Limited holding various grading certificates of software products was accredited as a software development enterprise and is chargeable for VAT 17%. After payment, the portion in excess of 3% over the actual tax liabilities is subject to the "Instant-pay and instant-refund" policy.

3. Business Tax

According to the tax regulation of the State, the business tax is charged at 5% on the income from rendering of services.

4. Urban maintenance and construction tax, Education surcharge and Local education surcharge

According to the tax regulation of the State and Locals, urban maintenance and construction tax is charged at 7% of turnover tax payable, education surcharge is charged at 3% of turnover tax payable, local education surcharge is charged at 2% of turnover tax payable.

5. Property Tax

Property tax is calculated at the tax rate of 1.2% on the 70% of the original cost of the properties.

6. Land use Tax

Land use tax is based on actual area of land occupied. Land in Shenzhen City is charged at RMB21 per square meter; land in Guanlan, Shenzhen at RMB3 per square meter.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

Name of company	Business structure	Place of incorporation	Business nature	Registered capital RMB'000	Business scope	Investment cost at 31 December 2013 RMB'000	Other amounts constitutes as net investment in subsidiaries	Proportion of share holding (%)	Proportion of voting rights (%)	Whether consolidated	Minority interests	Amount in minority interests used to write down the losses of minority interests
Subsidiaries obtained through establishment or investment												
Second-level subsidiary												
Shenzhen Powerleader Computing System Limited	Incorporated with limited liabilities	Shenzhen	Manufacturing	38,000.00	Production, Sales of cloud server, cloud storage equipment and solutions	12,750.00	—	100.00	100.00	Yes	—	—
Shenzhen Baoteng Internet Technology Limited	Incorporated with limited liabilities	Shenzhen	Computing service and software	1,000.00	Leasing of computer equipment	9,500.00	—	100.00	100.00	Yes	—	—
Shenzhen Powerleader Software Development Limited	Incorporated with limited liabilities	Shenzhen	Computing service and software	1,000.00	Development of cloud computing softwares and platform	10,200.00	—	100.00	100.00	Yes	—	—
Shenzhen Powerleader Communication Technology Limited	Incorporated with limited liabilities	Shenzhen	Computing service and software	100.00	Development of technology communication equipment and relevant products	900.00	—	90.00	90.00	Yes	(205,742.70)	1,205,742.70
Shenzhen Powerleader Property Development Limited	Incorporated with limited liabilities	Shenzhen	Services	50.00	Property water and electricity installation, maintenance and property management	495.00	—	99.00	99.00	Yes	(20,465.50)	70,465.50
Baoteng Zhiyuan Technology Limited	Incorporated with limited liabilities	Shenzhen	Manufacturing	1,000.00	Sales of cloud computing equipment and parts; and distribution agencies of cloud computing core parts and provision for relevant value-added services	10,080.00	—	100.00	100.00	Yes	—	—
Shenzhen Baozhongyun Technology Services Limited	Incorporated with limited liabilities	Shenzhen	Computing service and software	1,000.00	Technological development, consultancy and sales of computing software; domestic trading	—	—	100.00	100.00	Yes	—	—
Shenzhen Powerleader Cloud Computing Research Institute Limited	Incorporated with limited liabilities	Shenzhen	Computing service and software	1,000.00	Research and development, design of branding (玉德powerlead) of cloud server, cloud storage, cloud equipment and parts	1,800.00	—	100.00	100.00	Yes	—	—
Nanjing Powerleader Cloud Computing Technology Limited	Incorporated with limited liabilities	Nanjing	Manufacturing	5,000.00	Suspended business	49,500.00	—	99.00	99.00	Yes	487.34	126.61
Powerleader Science & Technology (HK) Limited	Incorporated with limited liabilities	Hong Kong	Investment holding	USD999.00	Investment holding	67,353.80	—	100.00	100.00	Yes	—	—
Third-level subsidiary												
Ex-Channel Group Limited	Incorporated with limited liabilities	Hong Kong	Trading	HKD3,000.00	Sales of cloud computing equipment and parts and distribution agency of cloud computing core parts and provision of value-added services	4,052.00	—	100.00	100.00	Yes	—	—
Powerleader Binhia Technology (Tianjin) Limited	Incorporated with limited liabilities	Tianjin	Sales	USD1,300.00	Development, design, production, sales, for computer networks, electronic communication equipment and hardwares and software; and exhibition and relevant training and provision of exhibition and meeting services	8,867.30	—	100.00	100.00	Yes	—	—

Note:

- 1) The subsidiaries of the Company are unlisted companies with limited liabilities.
- 2) None of the subsidiaries had issued any debt securities at 31 December 2013 and any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(1) Subsidiaries *(continued)*

1. **Shenzhen Powerleader Computing System Limited 深圳市宝德计算机系统有限公司 (referred as "Powerleader Computing")**

Powerleader Computing was established on 8 October 2003 with initial capital of RMB10 million. The shareholding of the company is 94.26%. It obtained the business licence No. 440301103172983 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative is Dong Weiping. In 2010, Powerleader Computing increase its registered capital to RMB38 million by transferring the undistributed profits to capital and taking up investment of RMB2 million from a new shareholder. On 2 April 2011, the Company acquired 5.74% shareholding from the minority shareholders at a consideration of RMB2.8million. Up to 31 December 2013, the Company owns 100% of its shares.

Business scope: Production (conducted by branches), development, sales of computer hardwares, softwares and peripherals, computer parts, electronic, electrical, communication equipment; integrated circuit for computing systems; Import and export of goods and technologies.

2. **Shenzhen Baoteng Internet Technology Limited 深圳市宝腾互联科技有限公司 (referred as "Baoteng Internet")**

Baoteng Internet was established in 2003 with initial capital of RMB1 million. The shareholding of the company is 75%. It obtained the business licence No. 440306103599524 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative is Ma Zhumao. On 4 April 2006, the Company and Powerleader Holdings contributed additional capital of RMB9 million to Baoteng Internet. As a result, the registered capital of Baoteng Internet was increased to RMB10 million. On 2 April 2011, the Company acquired 25% shareholding from the minority shareholders at a consideration of RMB2 million. Up to 31 December 2013, the Company owns 100% of its shares.

Business scope: Development, purchase and sales of information technological products, communication technological products, electronic consumer products and hardwares and softwares of internet technological products.

3. **Shenzhen Powerleader Software Development Limited 深圳市宝德软件开发有限公司 (referred as "Powerleader Software")**

Powerleader Software was established in 2008 with initial capital of RMB10 million. The shareholding of the company is 99%. It obtained the business licence No. 440306103615979 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative is Ma Zhumao. On 2 April 2011, the Company acquired 1% shareholding from the minority shareholders, Powerleader Holdings at a consideration of RMB0.3 million. Up to 31 December 2013, the Company owns 100% of its shares.

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

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

Powerleader Communication was established in 2005 with initial capital of RMB1 million. It obtained the business licence No. 440301103401448 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative is Ma Zhumao. Up to 31 December 2013, the Company owns 90% of its shares, and Zhang Yunxia owns 10% of its shares.

Business scope: Development, production and sales of SSDs, HDD adapters, notebook computer, LCD television, communication equipment, computer, electronic peripherals.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(1) Subsidiaries *(continued)*

5. **Shenzhen Powerleader Property Development Limited 深圳市宝德物業發展有限公司 (referred as "Powerleader Property")**

Powerleader Property was established in 2007 with initial capital of RMB0.5 million. It obtained the business licence No. 440301103052307 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative is Ma Zhumao. Up to 31 December 2013, the Company owns 99% of its shares, and Powerleader Holdings owns 1% of its shares.

Business scope: Property water and electricity installation, property management (operating with qualification certificate); lease of self-owned properties, landscaping (operating with qualification certificate); domestic commercial, material supplies (excluding franchising, control and monopoly of goods and restricted foreign investment projects).

6. **Shenzhen Baotong Zhiyuan Technology Limited 深圳市宝通志遠科技有限公司 (referred as "Baotong Zhiyuan")**

Baotong Zhiyuan was established in 2008 with initial capital of RMB1 million. The shareholding of the company is 99%. It obtained the business licence No. 440306103471649 issued by Shenzhen Commercial and Industrial Administrative Bureau. The legal representative is Ma Zhumao. On 20 May 2009, the Company acquired 1% shareholding from the minority shareholders, Powerleader Holdings at a consideration of RMB0.18 million. Up to 31 December 2013, the Company owns 100% of its shares.

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

7. **Shenzhen Baozhongyun Technology Services Limited 深圳市宝中雲技術服務有限公司 (referred as "Baozhongyun")**

Baozhongyun was established in 2011. It obtained the business licence No. 440306105660008 issued by Shenzhen Commercial and Industrial Administrative Bureau. Its registered capital is RMB10 million. The legal representative is Ma Zhumao. On 16 October 2013, it was deregistered.

8. **Shenzhen Powerleader Cloud Computing Research Institute Limited 深圳市宝德雲計算研究院有限公司 (referred as "Research Institute")**

Research Institute was established in 2011. It obtained the business licence No. 440306105730362 issued by Shenzhen Commercial and Industrial Administrative Bureau. Its registered capital is RMB10 million. The legal representative is Ma Zhumao. Up to 31 December 2013, the Company contributed RMB9 million to its capital and owns 90% of its shares; Powerleader Computing contributed RMB1 million and owns 10% of its shares. The Company indirectly owns 100% of its shares.

Business scope: Technological development and sales of computer hardwares and softwares, research and development of communication and internet technologies, digital multi-media technologies, domestic trading. (Except for those projects which require prior approval according to law, administrative regulations, State Council requirements)

9. **Nanjing Powerleader Cloud Computing Technology Limited 南京宝德雲計算技術有限公司 (referred as "Nanjing Powerleader")**

Nanjing Powerleader was established in 2011. It obtained the business licence No. 440306105730362 issued by Nanjing Commercial and Industrial Administrative Bureau. Its registered capital is RMB50 million. The legal representative is Liu Hongxin. Up to 31 December 2013, the Company actually contributed RMB49.50 million to its capital holding 99% of its shares; Powerleader Holdings actually contributed RMB0.5 million and owns 1% of its shares.

Business scope: Research and development and manufacturing of cloud computing technologies, development, manufacturing and sales of computer hardwares and softwares and interface equipment, computer parts, internet equipment.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

V. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(1) Subsidiaries *(continued)*

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

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

Business scope: Investment holding of computing server and relevant products

11. **Ex-Channel Group Limited 宝通集團有限公司 (referred as "Ex-channel")**

Ex-channel was incorporated in 2003 with share capital of HK\$30 million. On 17 February 2011, Hong Kong Powerleader acquired 10% shareholding from the minority shareholder TopPioneerLimited at a consideration of HK\$8.8 million and from Dong Weiping at HK\$8.8 million. Up to 31 December 2013, the Company owns 100% of shares of Ex-channel through Hong Kong Powerleader.

Business scope: Sales of cloud computing equipment and parts, agency of cloud computing core parts and provision of value-added services.

12. **Powerleader Binhai Technology (Tianjin) Limited 宝德濱海科技(天津)有限公司 (referred as "Binhai Powerleader 濱海宝德")**

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

Business scope: Development, design, production and sales of internet computing, electronic, communication equipment and their softwares and hardwares systems engineering; exhibitions and provision of relevant technical training and exhibition meeting services; property management and consultancy of the above-mentioned aspects.

(2) Changes in consolidation scope

(1) **Entities excluding from the consolidation scope in current year**

Name of company	Reason for excluding from consolidation scope	Proportion of shareholdings (%)	Net profit for the period from	
			Net assets at 15 October 2013	1 January 2013 to 15 October 2013
Shenzhen Baozhongyun Technology Services Limited	Deregistered	100.00	337,793.68	(396,807.61)

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise stated, "Beginning balance" in the financial statements as set out below means balance at 1 January 2013; "Closing balance" means balance at 31 December 2013; "This year" means the period from 1 January 2013 to 31 December 2013. Unless otherwise stated, the financial statements are expressed in RMB.

1. Bank balances and cash

Item	Ending balance			Beginning balance		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash in hand			573,590.67			1,117,858.38
RMB	573,590.67	1.0000	573,590.67	1,117,858.38	1.0000	1,117,858.38
Bank deposits			331,345,622.86			189,091,292.35
RMB	273,393,201.56	1.0000	273,393,201.56	152,273,856.73	1.0000	152,273,856.73
US\$	9,304,291.33	6.0969	56,727,333.81	5,703,971.71	6.2855	35,852,314.22
HK\$	1,558,179.53	0.78623	1,225,087.49	1,190,258.86	0.81085	965,121.40
Other bank balances and cash			38,525,202.04			51,714,191.77
RMB	9,251,680.27	1.0000	9,251,680.27	20,221,869.10	1.0000	20,221,869.10
US\$	4,801,378.04	6.0969	29,273,521.77	5,010,313.05	6.2855	31,492,322.67
Total			370,444,415.57			241,923,342.50

As at the end of 2013, the restricted bank deposits of the Group were RMB38,525,202.04 (2012: RMB51,714,191.77). It was included in "Other bank balances and cash". It was the guarantee deposits for opening letters of credit and for utilizing the letters of credit beyond the pre-approved limit.

Restricted bank deposits were as follows:

Nature	Currency	Amount in original currency	Amount in RMB
Guarantee deposit for opening letters of credit	RMB	9,251,680.27	9,251,680.27
Guarantee deposit for opening letters of credit	US\$	4,301,378.04	26,225,071.77
Guarantee deposit for utilising letters of credit beyond pre-approved limit	US\$	500,000.00	3,048,450.00
Total			38,525,202.04

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

2. Financial assets at fair value through profit or loss

Categories of financial assets at fair value through profit or loss

Item	Fair value at end of year	Fair value at beginning of year
Derivative financial assets	362,198.90	178,693.25
Total	362,198.90	178,693.25

The derivative financial assets was the foreign currency forward contracts held by the subsidiary Ex-channel. The forward contracts are unlisted and located in Hong Kong.

3. Notes receivable

(1) Categories of notes receivable

Category	Ending balance	Beginning balance
Bank acceptance notes	6,004,388.78	19,825,139.21
Commercial acceptance notes	13,846,449.03	8,399,003.07
Total	19,850,837.81	28,224,142.28

(2) As at end of 2013, the notes receivable that were discounted to other parties for payments and yet to mature were as follows:

Type of note	Drawer	Date of discount	Due date	Amount	Discounted amount
Commercial acceptance notes	ZTE Corporation	2013-12-18	2014-2-25	1,079,040.00	1,061,047.01
Commercial acceptance notes	ZTE Corporation	2013-12-18	2014-3-25	2,215,660.00	2,163,721.24
Commercial acceptance notes	ZTE Corporation	2013-12-18	2014-4-24	4,121,981.97	3,995,471.47
Total				7,416,681.97	7,220,239.72

(3) There was no notes receivable from shareholders holding over 5% (or 5%) of the Group's shares entitling voting rights as at end of 2013.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

3. Notes receivable (continued)

(4) Notes receivable comprised the following balances in foreign currencies:

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	—	—	—	1,514,226.51	6.2855	9,517,670.73
Total			—			9,517,670.73

4. Accounts receivable

Item	Ending balance	Beginning balance
Accounts receivable	413,158,786.33	373,510,036.91
Less: Provision for bad debts	17,238,366.27	12,971,038.28
Net amount	395,920,420.06	360,538,998.63

Most of the domestic sales of the Group are on credit terms with 30 to 90 days credit period.

(1) Aging analysis of accounts receivable

Prior to the acceptance of new customers, the Group applies internal credit assessment policies to assess the credit quality of potential customers and formulates credit limit. Apart from requiring new customers to pay in advance, the Group formulates different credit policies according to different customers. The credit period is generally three months, and can be extended to twelve months for major customers. For the sales, the Group recognizes accounts receivable and operating revenue at the time point of outbound and acceptance of products, when calculation of the ages of the account begins. Aging analysis of accounts receivable, net of provision for bad debts, presented based on the recognition date is as follows:

Aging	Ending balance	Beginning balance
Within 3 months	246,238,965.38	247,740,542.67
3 months to 1 year	124,997,384.26	97,232,451.99
1 to 2 years	23,379,823.21	13,274,689.50
2 to 3 years	700,553.10	2,080,599.66
3 to 4 years	568,102.24	177,724.34
4 to 5 years	35,591.87	32,990.47
Net amount	395,920,420.06	360,538,998.63

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(2) Risk category of accounts receivable

Category	Ending balance			
	Book balance	Provision for bad debts		Proportion (%)
	Amount	Proportion (%)	Amount	
Accounts receivable that are individually significant and are provided for bad debts on individual basis				
Accounts receivable that are provided for bad debts on portfolio basis				
Aged group	409,851,967.18	99.20	13,971,147.12	3.41
Related party	39,600.00	0.01	—	—
Sub-total	409,891,567.18	99.21	13,971,147.12	3.41
Accounts receivable that are individually insignificant but are individually provided for bad debts	3,267,219.15	0.79	3,267,219.15	100.00
Total	413,158,786.33		17,238,366.27	

Category	Beginning balance			
	Book balance	Provision for bad debts		Proportion (%)
	Amount	Proportion (%)	Amount	
Accounts receivable that are individually significant and are provided for bad debts on individual basis				
Accounts receivable that are provided for bad debts on portfolio basis				
Aged group	370,753,183.31	99.26	10,221,784.68	2.76
Related party group	7,600.00	—	—	—
Sub-total	370,760,783.31	99.26	10,221,784.68	2.76
Accounts receivable that are individually insignificant but are individually provided for bad debts	2,749,253.60	0.74	2,749,253.60	100.00
Total	373,510,036.91		12,971,038.28	

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

4. Accounts receivable (continued)

(2) Risk category of accounts receivable (continued)

- 1) There were no accounts receivable that are individually significant and provided bad debts on individual basis at end of the year.
- 2) The details of accounts receivable that are provided for bad debts by aging analysis.

Item	Ending balance			Beginning balance		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 3 months	245,903,052.76	0	—	247,732,942.67	0	—
3 months to 1 year	131,888,101.97	5	6,594,405.09	102,349,949.47	5	5,117,497.48
1 to 2 years	29,224,779.01	20	5,844,955.80	16,593,361.88	20	3,318,672.38
2 to 3 years	1,167,588.49	40	467,035.39	3,467,666.10	40	1,387,066.44
3 to 4 years	1,420,255.60	60	852,153.36	444,310.84	60	266,586.50
4 to 5 years	177,959.37	80	142,367.50	164,952.35	80	131,961.88
Over 5 years	70,229.98	100	70,229.98	—	100	—
	409,851,967.18		13,971,147.12	370,753,183.31		10,221,784.68

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(2) Risk category of accounts receivable (continued)

3) Accounts receivable that are individually significant and provided for bad debts on individual basis at end of year

Name	Book balance	Bad debts amount	Provision proportion (%)	Reason for provision
Kunming Yingzhong Technology Limited	735,770.00	735,770.00	100	Low recoverability
Guangdong Yuankang Softwares Co., Limited	452,460.00	452,460.00	100	Low recoverability
Nanjing Sutian Feihua Electrical Industrial Limited	440,570.00	440,570.00	100	Low recoverability
Inhuijie Technology Limited	332,725.00	332,725.00	100	Low recoverability
Shandong Sciwal Information Technology Limited	320,748.00	320,748.00	100	Low recoverability
Baoji Yunyi Network Technology Limited	182,100.00	182,100.00	100	Low recoverability
Beijing Long Speedkey Limited	157,500.00	157,500.00	100	Low recoverability
Shandong University Softwares Limited	98,200.00	98,200.00	100	Low recoverability
Beijing Haitian Network Public Relation Consultant Limited	94,900.00	94,900.00	100	Low recoverability
Beijing Century Hongri Technology Limited	65,680.00	65,680.00	100	Low recoverability
Shanghai Ouwang Network Technology Limited	63,646.00	63,646.00	100	Low recoverability
Shanghia Quanyao Technology Trading	59,900.00	59,900.00	100	Low recoverability
Hunan Sipulin	29,400.00	29,400.00	100	Low recoverability
Beijing Sina Information technology Limited	29,004.00	29,004.00	100	Low recoverability
Bailing Information Technology Limited	29,000.00	29,000.00	100	Low recoverability
Sihua Technology (Shanghai) Limited	28,200.00	28,200.00	100	Low recoverability
Guangzhou Electricity Bureau of Guangdong Electricity Network Company	21,300.00	21,300.00	100	Low recoverability
Others	126,116.15	126,116.15	100	Low recoverability
Total	3,267,219.15	3,267,219.15		

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

4. Accounts receivable (continued)

(3) There were no accounts receivables from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at end of the year.

(4) Top five accounts receivable outstanding were as follows:

Name	Relationships with the Group	Amount	Aged	Proportion to total accounts receivable (%)
The First	Independent third party	5,207,155.07	Within 3 months	1.26
	Independent third party	53,138,873.44	3 months to 1 year	12.86
Sub-total of The First		58,346,028.51		14.12
The Second	Independent third party	17,525,183.50	Within 3 months	4.24
	Independent third party	1,457,610.00	3 months to 1 year	0.35
	Independent third party	17,296,398.00	1 to 2 years	4.19
Sub-total of The Second		36,279,191.50		8.78
The Third	Independent third party	15,850,630.00	Within 3 months	3.84
	Independent third party	8,617,720.00	3 months to 1 year	2.09
Sub-total of The Third		24,468,350.00		5.93
The Fourth	Independent third party	19,049,450.55	Within 3 months	4.61
The Fifth	Independent third party	7,372,450.00	Within 3 months	1.78
	Independent third party	4,415,343.17	3 months to 1 year	1.07
Sub-total of The Fifth		11,787,793.17		2.85
Total		149,930,813.73		36.29

(5) Details of accounts receivable from related parties

Name	Relationship with the Group	Ending balance			Beginning balance		
		Amount	Proportion to accounts receivable (%)	Provision for bad debts	Amount	Proportion to accounts receivable (%)	Provision for bad debts
Zqgame	Associate	39,600.00	0.01	—	7,600.00	—	—
Total		39,600.00			7,600.00		

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(6) Accounts receivable comprised the following balances in foreign currencies:

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	44,540,349.64	6.0969	271,558,057.72	46,227,191.70	6.2855	290,561,013.43
Total			271,558,057.72			290,561,013.43

5. Prepayments

(1) The aged analysis of prepayments

Item	Ending balance		Beginning balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	32,346,250.20	100.00	9,215,982.31	38.30
1 to 2 years	—	—	14,847,822.65	61.70
Total	32,346,250.20		24,063,804.96	

(2) Details of the top prepayments

Name	Relationship with the Group	Amount	Aged	Reason of outstanding
Guangzhou Zhonglian Shuntong Computer Technology Services Limited	Independent third party	9,384,560.36	Within 1 year	Within normal accounting period
Guangzhou Geyuan Technology Development Limited	Independent third party	7,244,644.32	Within 1 year	Within normal accounting period
Shanghai Aishu Software Limited	Independent third party	4,469,515.00	Within 1 year	Within normal accounting period
Guangzhou Shanglian Softwares Technology Limited	Independent third party	2,482,831.06	Within 1 year	Within normal accounting period
Dongguan Touxin Information Technology Limited	Independent third party	2,283,508.10	Within 1 year	Within normal accounting period
Total		25,865,058.84		

(3) There was no prepayments from shareholders holding over 5% (or 5%) of the Group's shares entitling voting rights as at end of year

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

5. Prepayments (continued)

(4) Prepayments comprised the following balances in foreign currencies

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	678,382.20	6.0969	4,136,028.44	693,653.25	6.2855	4,359,957.50
Total			4,136,028.44			4,359,957.50

6. Other receivables

Item	Ending balance	Beginning balance
Other receivables	174,452,012.72	155,580,315.24
Less: Provision for bad debts	692,156.28	3,048,514.58
Net amount	173,759,856.44	152,531,800.66

(1) Aging analysis of other receivables

Aged	Ending balance	Beginning balance
Within 3 months	106,468,627.62	143,411,308.88
3 months to 1 year	45,621,792.62	1,146,862.14
1 to 2 years	14,078,492.58	5,935,512.84
2 to 3 years	5,700,475.65	48,265.70
3 to 4 years	28,100.00	147,851.10
4 to 5 years	22,367.97	2,000.00
Over 5 years	1,840,000.00	1,840,000.00
Net amount	173,759,856.44	152,531,800.66

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(2) Risk category of other receivables

Category	Ending balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis				
Other receivables that are provided for bad debts on portfolio basis				
Aged group	64,444,600.14	36.94	69,592.21	0.11
Related party group	264,740.19	0.15	—	—
Collateral group	20,634,848.41	11.83	—	—
Long-term strategic co-operating units	89,107,823.98	51.08	622,564.07	0.70
Sub-total	174,452,012.72	100.00	692,156.28	0.40
Other receivables that are individually insignificant but are individually provided for bad debts	—	—	—	—
Total	174,452,012.72	100.00	692,156.28	

Category	Beginning balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	—	—	—	—
Other receivables that are provided for bad debts on portfolio basis				
Aged group	29,784,034.34	19.14	—	—
Related party group	139,483.81	0.09	—	—
Collateral group	15,530,673.98	9.98	—	—
Long-term strategic co-operating units	107,077,608.53	68.83	—	—
Sub-total	152,531,800.66	98.04	—	—
Other receivables that are individually insignificant but are individually provided for bad debts	3,048,514.58	1.96	3,048,514.58	100.00
Total	155,580,315.24		3,048,514.58	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6. Other receivables (continued)

(2) Risk category of other receivables (continued)

1) The details of other receivable that are provided for bad debts by aging analysis

Item	Ending balance			Beginning balance		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 3 months	63,907,059.35	0	—	29,784,034.34	0	—
3 months to 1 year	252,772.96	5	12,638.64	—	5	—
1 to 2 years	284,767.83	20	56,953.57	—	20	—
Total	64,444,600.14		69,592.21	29,784,034.34		

(3) There were no other receivables from shareholders holding over 5% (or 5%) of the Group's shares entitling voting rights as at end of year.

(4) The top five other receivables outstanding are as follows:

Name	Relationships with the Group	Amount	Aged	Proportion to total other receivables (%)	Nature
Intel (China) Limited	Independent third party	39,790,665.41	Within 3 months	22.81	Rebate of purchase
		36,377,911.13	3 months to 1 year	20.85	Rebate of purchase
		12,939,247.44	1 to 2 years	7.42	Rebate of purchase
Sub-total of Intel		89,107,823.98		51.08	
Shenzhen Yingjiexun Industrial Development Limited	Independent third party	57,239,923.23	Within 3 months	32.81	Current account
Shenzhen Federation of Industry and Commerce (Head Union)	Independent third party	6,000,000.00	3 months to 1 year	3.44	Security for loans
		1,800,000.00	Over 5 years	1.03	Security for loans
Shenzhen Federation of Industry and Commerce (Head Union)	Independent third party	7,800,000.00	Over 5 years	4.47	Security for loans
Tianjin Airport Economic Zone Land Bureau	Independent third party	5,257,462.50	2 to 3 years	3.01	Construction development fund
Chengdu Aisheng Technology Limited	Independent third party	2,510,000.00	3 months to 1 year	1.44	Loan for projects
Total		161,915,209.71		92.81	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(5) Other receivables from related parties

Name	Relationships with the Group	Ending balance			Beginning balance		
		Amount	Proportion to other receivables (%)	Provision for bad debts	Amount	Proportion to other receivables (%)	Provision for bad debts
Li Ruijie	Actual controller	264,740.19	0.15	—	139,483.81	0.09	—
Total		264,740.19			139,483.81		

(6) Other receivables comprised the following balances in foreign currencies

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	14,618,648.43	6.0969	89,128,437.61	16,048,906.21	6.2855	100,875,399.98
HK\$	352,462.52	0.78623	277,116.61	383,260.27	0.81085	310,766.59
Total			89,405,554.22			101,186,166.57

7. Inventories

(1) Categories of inventories

Item	Ending balance		
	Book balance	Provision for inventories	Carrying value
Material in transits	1,050,552.22	—	1,050,552.22
Raw materials	49,558,645.16	360,158.35	49,198,486.81
Work-in-progress	4,393,879.26	—	4,393,879.26
Finished goods	127,482,787.72	319,910.18	127,162,877.54
Goods in transits	9,019,950.46	—	9,019,950.46
Sub-contracting material	165,687.28	—	165,687.28
Total	191,671,502.10	680,068.53	190,991,433.57

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

(1) Categories of inventories (continued)

Item	Beginning balance		Carrying value
	Book balance	Provision for inventories	
Material in transits	1,732,040.55	—	1,732,040.55
Raw materials	48,310,330.28	2,012,023.68	46,298,306.60
Work-in-progress	1,775,437.46	—	1,775,437.46
Finished goods	116,260,482.88	1,738,858.99	114,521,623.89
Goods in transits	10,380,740.59	—	10,380,740.59
Sub-contracting material	392,707.05	—	392,707.05
Total	178,851,738.81	3,750,882.67	175,100,856.14

(2) Provision for inventories

Item	Beginning balance	Increase	Decrease		Ending balance
			Reversal	Other transfer	
Raw materials	2,012,023.68	176,810.12	—	1,828,675.45	360,158.35
Finished goods	1,738,858.99	319,910.18	—	1,738,858.99	319,910.18
Total	3,750,882.67	496,720.30	—	3,567,534.44	680,068.53

8. Other current assets

Item	Ending balance	Beginning balance	Nature
Prepaid expenditure	93,815.82	—	Property rent, decoration, etc
Total	93,815.82	—	

9. Long-term equity investments

(1) The category of long-term equity investments

Item	Ending balance	Beginning balance
Long-term equity investments accounted for using cost method	—	18,000,000.00
Long-term equity investments accounted for using equity method	204,433,275.76	136,667,011.01
Total of long-term equity investments	204,433,275.76	154,667,011.01
Less: Provision for impairment loss of long-term equity investments	—	—
Net carrying value	204,433,275.76	154,667,011.01

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term equity investments (continued)

(2) Analysis of long-term equity investments

Item	Ending balance	Beginning balance
Listed	144,704,848.48	136,667,011.01
PRC (Other than Hong Kong)	144,704,848.48	136,667,011.01
Hong Kong	—	—
Other regions	—	—
Sub-total	144,704,848.48	136,667,011.01
Unlisted	59,728,427.28	18,000,000.00
Total	204,433,275.76	154,667,011.01

As at end of the year, the market value of listed investments was RMB893,856,600.00.

As at 31 December 2013, the fair value of listed long-term equity investments were RMB893,856,600.00.

(3) Long-term equity investments accounted for using cost method and equity method

Name of investee	Proportion of shareholdings (%)	Proportion of voting rights (%)	Investment cost	Beginning balance	Increase	Decrease	Ending balance	Cash dividend received for the year
Accounted for using cost method								
Shen-Viet Joint Investment ^{Note 1}	18.00	18.00	18,000,000.00	18,000,000.00	—	18,000,000.00	—	—
Sub-total			18,000,000.00	18,000,000.00	—	18,000,000.00	—	—
Accounted for using equity method								
Shenzhen Zqgame Interactive Network Co., Limited ^{Note 2}	15.30	15.30	3,000,000.00	136,667,011.01	9,231,237.47	1,193,400.00	144,704,848.48	1,193,400.00
Beijing Haiyun Jiexun Technology Limited ^{Note 3}	25.00	33.33	15,000,000.00	—	16,541,031.28	—	16,541,031.28	—
Sichuan Baoteng Internet Technology Limited ^{Note 4}	49.00	66.67	42,000,000.00	—	43,187,395.99	—	43,187,395.99	—
Sub-total			60,000,000.00	136,667,011.01	68,959,664.74	1,193,400.00	204,433,275.75	1,193,400.00
Total			78,000,000.00	154,667,011.01	68,959,664.74	19,193,400.00	204,433,275.75	1,193,400.00

Note 1: Shenzhen Shen-Viet Joint Investment Limited (referred to as "Shen-Viet Joint Investment") is engaged in the construction of a China Industrial Park in Vietnam. The Company invested RMB5 million in it in 2008, holding 5% of its shares and further invested RMB13 million in 2010. After the contribution, the shareholding of the Company became 18%. On 1 March 2013, the Company transferred its shareholding of 18% in Shen-Viet Joint Investment to controlling shareholder of the Company Powerleader Holdings at a consideration of RMB20 million.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term equity investments (continued)

(3) Long-term equity investments accounted for using cost method and equity method (continued)

Note 2: Shenzhen Zqgame Interactive Network Co., Limited (referred to as "Zqgame") is formerly known as Shenzhen Powerleader Network Technology Limited. It is engaged in Development and operating network games. It was established jointly by the Company and the holding company of the Company, Powerleader Holdings in 2000. The Company owned 99% shareholding, Powerleader Holdings owned 1%. After a number of shareholding changes in 2007 to 2010 and the listing in A shares GEM board in 2010 and the shareholding of the Company in Zqgame was diluted from 20.4% to 15.3%. As the Company has 2 out of the 8 directors in the board of Zqgame, the Company has significant influence over Zqgame. Accordingly, Zqgame is accounted for using equity method.

Note 3: Beijing Haiyun Jiexun Technology Limited was established on 25 May 2010 in Beijing by Lin Zhiguo who invested RMB5 million. According to capital increment agreement entered into on 18 October 2013, the Company would contribute a total of RMB15 millions in 3 tranches. Up to 31 December 2013, the Company had contributed RMB9 million, of which 1,666,666.67 was applied to increase the registered capital. The registered capital after the change was RMB6,666,666.67. The shareholding of Zhang Zhengyu, Li Hua and the Company were 49.5%, 25.5% and 25% respectively. The legal representative is Li Hua. The Company has 1 out of 3 directors in the board. It is accounted for using equity method.

Note 4: Sichuan Baoteng Internet Technology Limited (referred to as "Sichuan Baoteng") was invested and established by Sichuan Mingguan Network Technology Limited (referred to as "Sichuan Mingguan"). It obtained its business registration licence on 30 September 2013. The registered capital at the time of establishment was RMB1 million. On 30 October 2013, the Company entered into capital increment agreement that the Company subscribed the newly increased capital in Sichuan Baoteng of RMB0.9608 million at a consideration of RMB42 million. After the increment of capital, the registered capital of Sichuan Baoteng was RMB1.9608 million. The shareholding of Sichuan Mingguan and the Company was 51% and 49% respectively. The board of directors in Sichuan Baoteng has 3 directors, 2 of them were appointed by the Company. The Company has 66.67% voting rights in the board of directors. However, the significant decision of Sichuan Baoteng must be agreed by all directors and shareholders, therefore, it is accounted for using equity method. Up to 31 2013, the Company has made investment cost of RMB10 million.

(4) Investments in joint ventures entities and associates

Name of investee	Business structure	Place of registration	Business nature	Legal representative	Registered capital	Organisation code
Zqgame	Joint stock limited	Shenjing	Internet	Li Ruijie	260,000,000.00	75252459-5
Beijing Haiyun Jiexun Technology Limited	Incorporated with limited liabilities	Beijing	Provision of technology development services	Li Hua	6,666,666.67	556899496
Sichuan Baoteng	Incorporated with limited liabilities	Chengdu	Development and sales of softwares	Zhang Geng	1,960,800.00	07769725-6

Name of investee	Proportion of shareholdings (%)	Proportion of voting rights (%)	Ending balance of total assets	Ending balance of total liabilities	Ending balance of total net assets	Total revenue of the year	Net profit for the year
Zqgame	15.30	15.30	1,404,836,138.91	401,457,488.86	1,003,378,650.05	324,475,994.23	59,545,896.61
Beijing Haiyun Jiexun Technology Limited	25.00	33.33	12,957,428.22	419,335.33	12,538,092.89	5,252,634.40	(1,169,208.19)
Sichuan Baoteng	49.00	66.67	64,362,309.42	18,369,879.96	45,992,429.46	19,081,607.00	2,423,257.13

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Investment properties

(1) Investment properties measured using cost model

Item	Beginning balance	Increase	Decrease	Ending balance
Cost	—	18,926,166.38	—	18,926,166.38
Buildings	—	18,926,166.38	—	18,926,166.38
Accumulated depreciation and amortization	—	2,087,744.00	—	2,087,744.00
Buildings	—	2,087,744.00	—	2,087,744.00
Book balance	—	—	—	16,838,422.38
Buildings	—	—	—	16,838,422.38
Provision for impairment	—	—	—	—
Buildings	—	—	—	—
Carrying value	—	—	—	16,838,422.38
Buildings	—	—	—	16,838,422.38

(2) Depreciation and amortization of investment properties recognised in income statement for the year was RMB363,382.41 (Last year: NIL).

(3) The investment properties were situated in the PRC and held under medium lease terms (more than 10 years but less than 50 years).

(4) Investment properties with restrictions on legal titles or using rights

Item	Area of the whole item	Area of investment property	Ending balance of cost	Ending balance of carrying value	Nature of the pledge
Plant	23,558.42	8,096.50	17,216,721.28	15,317,546.04	Mutual guaranteed loan mortgage
Research and development centre	8,607.82	803.90	1,709,445.10	1,520,876.34	Mutual guaranteed loan mortgage
Total	32,166.24	8,900.40	18,926,166.38	16,838,422.38	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

11. Fixed assets

(1) Breakdown of fixed assets

Item	Beginning balance	Increase	Decrease	Ending balance
Cost	261,365,761.58	6,304,619.43	20,892,828.93	246,777,552.08
Buildings	217,212,784.97	828,423.72	18,926,166.38	199,115,042.31
Plant and machinery	13,045,991.94	494,358.68	358,581.71	13,181,768.91
Motor vehicle	10,667,557.89	—	831,499.00	9,836,058.89
Office equipment	19,983,027.77	4,981,837.03	776,581.84	24,188,282.96
Other equipment	456,399.01	—	—	456,399.01
Accumulated depreciation	38,413,657.42	10,790,045.11	3,647,039.02	45,556,663.51
Buildings	14,708,380.63	6,070,891.04	2,087,744.00	18,691,527.67
Plant and machinery	6,452,363.90	1,090,505.65	127,218.49	7,415,651.06
Motor vehicle	5,277,694.34	670,969.37	738,474.02	5,210,189.69
Office equipment	11,841,475.30	2,871,146.45	693,602.51	14,019,019.24
Other equipment	133,743.25	86,532.60	—	220,275.85
Provision for impairment	—	—	—	—
Buildings	—	—	—	—
Plant and machinery	—	—	—	—
Motor vehicle	—	—	—	—
Office equipment	—	—	—	—
Other equipment	—	—	—	—
Carrying value	222,952,104.16			201,220,888.57
Buildings	202,504,404.34			180,423,514.64
Plant and machinery	6,593,628.04			5,766,117.85
Motor vehicle	5,389,863.55			4,625,869.20
Office equipment	8,141,552.47			10,169,263.72
Other equipment	322,655.76			236,123.16

(2) Depreciation and amortization of fixed assets recognised in income statement for this year was RMB9,659,629.71 (Last year: RMB9,341,246.94).

(3) No construction in progress was transferred in for the year.

(4) Loss on disposal of fixed assets for the year was RMB98,447.74.

(5) The buildings were situated in the PRC and held under medium lease terms (more than 10 years but less than 50 years).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Fixed assets (continued)

(6) Pledge of fixed assets

There were 2 pledge of fixed assets:

- 1) On 18 November 2009, Binhai Powerleader and Tianjin Airport Logistics Processing Zone Branch of Agricultural Bank of China entered into fixed assets loan agreement. The principal of the loan was RMB20 million. The guarantee period was from 18 November 2009 to 31 December 2013. The proceeds from the loan was used to construct Powerleader Science & Technology Plaza Northern Head Office Sales Centre. The loan was to be guaranteed by the Company during the construction period and was to be guaranteed by the sales centre after the construction was completed. The sales centre was completed in December 2011. Up to 31 December 2013, the cost of the building under pledge was RMB156,626,654.98 (of which building RMB126,770,654.98, land use rights RMB29,856,000.00), accumulated depreciation and amortization was RMB8,306,079.24 (of which building RMB6,675,546.53, land use rights RMB1,630,532.71).
- 2) On 31 January 2013, the Company and Shenzhen of China Construction Bank entered into guaranteed loan agreement. The principal of the loan was RMB200 million. The loan period was from 31 January 2013 to 30 January 2016. The proceeds from the loan was applied to daily operating purposes. It was pledged by the Company's plant and research and development centre located at Powerleader Technology Park, of Guanlan Hi-Tech Park, Longhua New District, Shenzhen. The total area of the plant and research and development centre under pledge was 32,166.24 square meter. Their cost was RMB68,399,578.69; accumulated depreciation up to the end of year was RMB7,545,152.43.

(7) Fixed assets leased out under operating leases

Item	Carrying value
Servers	1,780,939.73
Total	1,780,939.73

(8) Fixed assets with pending certificates of ownership

As the house of the Company located of at Futian District (Cost RMB1.8699 million; net carrying value at end of the year: RMB1.7353 million) is belonged to the government economic housing, the property certificate is held by the Municipal Government of Futian District. The property certificate of the house cannot be obtained.

As the property developer of the house of the Company located at Xian of Sanxi (Cost: RMB0.7365 million; net carrying value at end of the year: RMB0.6345 million) has not passed the examination of fire prevention facilities, the property certificate of the house cannot be obtained.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

12. Construction in progress

(1) Breakdown of construction in progress

Item	Ending balance		Net carrying value	Beginning balance		Net carrying value
	Book balance	Provision for impairment		Book balance	Provision for impairment	
Shenzhen (Guanlan) Cloud computing Data Centre	22,662,263.78	—	22,662,263.78	—	—	—
Nanjing Powerleader Cloud Computing	1,586,909.00	—	1,586,909.00	—	—	—
Total	24,249,172.78	—	24,249,172.78	—	—	—

(2) Movements of significant construction in progress projects

Name of project	Beginning balance	Increase	Decrease Transfer to fixed assets	Other decrease	Ending balance
Shenzhen (Guanlan) Cloud computing Data Centre	—	22,662,263.78	—	—	22,662,263.78
Nanjing Powerleader Cloud Computing	—	1,586,909.00	—	—	1,586,909.00
Total	—	24,249,172.78	—	—	24,249,172.78

Name of project	Budget RMB' million	Proportion of expenditure injected to budget (%)	Progress (%)	Accumulated capitalised interest	Including: Interest capitalised for the year	Interest capitalisation rate for the year (%)	Source of funds
Shenzhen (Guanlan) Cloud computing Data Centre	84	26.98	26.98	—	—	—	Own funds
Nanjing Powerleader Cloud Computing	500	0.32	0.32	—	—	—	Own fund
Total	584			—	—		

(3) The progress is estimated based on the volumn of construction work.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Intangible assets

(1) Breakdown of intangible assets

Item	Beginning balance	Increase	Decrease	Ending balance
Cost	172,393,706.35	29,630,446.97	—	202,024,153.32
Land use rights	62,747,845.30	26,789,125.00	—	89,536,970.30
Computer softwares	1,875,452.56	585,090.00	—	2,460,542.56
Research and development softwares	107,770,408.49	2,256,231.97	—	110,026,640.46
Accumulated amortisation	87,531,722.46	17,659,773.29	—	105,191,495.75
Land use rights	1,393,912.01	1,519,174.65	—	2,913,086.66
Computer softwares	1,015,730.87	407,601.39	—	1,423,332.26
Research and development softwares	85,122,079.58	15,732,997.25	—	100,855,076.83
Net carrying amount	84,861,983.89	—	—	96,832,657.57
Land use rights	61,353,933.29	—	—	86,623,883.64
Computer softwares	859,721.69	—	—	1,037,210.30
Research and development softwares	22,648,328.91	—	—	9,171,563.63
Provision for impairment	—	—	—	—
Land use rights	—	—	—	—
Computer softwares	—	—	—	—
Research and development softwares	—	—	—	—
Net carrying value	84,861,983.89	—	—	96,832,657.57
Land use rights	61,353,933.29	—	—	86,623,883.64
Computer softwares	859,721.69	—	—	1,037,210.30
Research and development softwares	22,648,328.91	—	—	9,171,563.63

- (2) The land of the land use right were situated in the PRC and held under medium lease terms (more than 10 years but less than 50 years).
- (3) Depreciation and amortization of intangible assets recognised in income statement for this year was RMB17,561,988.16 (Last year: RMB17,473,956.63).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

14. Development expenditures

(1) Breakdown of research and Development expenditures

Item	Beginning balance	Increase	Decrease		Ending balance
			Recognised in profit or loss for this year	Recognised as intangible assets	
High-performance fault-tolerant quadruple server	5,963,621.27	4,585,291.76	—	—	10,548,913.03
Mass storage server	8,423,996.56	9,357,580.35	—	—	17,781,576.91
High-performance fault-tolerant two channels server	2,256,231.97	—	—	2,256,231.97	—
High-performance fault-tolerant two channel server	156,757.00	8,556,564.57	—	—	8,713,321.57
Total	16,800,606.80	22,499,436.68	—	2,256,231.97	37,043,811.51

(2) The development expenditures incurred for this year represents 90.03% of the total expenditure of the research and development projects. The intangible assets generated by research and development undertaken by the Group itself represented 9.47% of the carrying value of intangible assets at end of year.

(3) The project on which the research and development expenditures were incurred this year was estimated to be completed in 2014.

15. Long-term prepayments

Item	Beginning balance	Increase	Decrease	Other decrease	Ending balance	Reason for other decrease
Total	135,145.42	—	82,492.53	—	52,652.89	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Deferred income tax assets and deferred income tax liabilities

(1) Recognised deferred income tax assets and deferred income tax liabilities

Item	Ending balance	Beginning balance
Deferred income tax assets		
Provision for impairment loss of assets	988,469.02	
Total	988,469.02	
Deferred income tax liabilities		
Changes in fair value of derivatives	59,762.82	—
Development expenditures	1,453,540.59	3,612,773.20
Total	1,513,303.41	3,612,773.20

(2) Breakdown of unrecognised deferred income tax assets

Item	Ending balance	Beginning balance
Deductible temporary differences	12,578,444.35	19,770,435.53
Deductible tax losses	50,366,197.80	64,946,863.52
Total	62,944,642.15	84,717,299.05

(3) Deductible tax losses of unrecognised deferred income tax assets will expire by the following period:

Item	Ending balance	Beginning balance
To expired in 2013 (2008)	—	14,580,665.72
To expired in 2014 (2009)	19,649,970.23	19,649,970.23
To expired in 2015 (2010)	4,283,304.65	4,283,304.65
To expired in 2016 (2011)	5,879,688.37	5,879,688.37
To expired in 2017 (2012)	20,553,234.55	20,553,234.55
Total	50,366,197.80	64,946,863.52

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

16. Deferred income tax assets and deferred income tax liabilities (continued)

(4) Details of taxable temporary differences and deductible temporary differences

Item	Amount
Taxable temporary difference	
Development expenditures	11,628,324.68
Fair value changes in derivatives	362,198.90
Total	11,990,523.58
Deductible temporary difference	
Provision for assets impairment	6,032,146.73
Total	6,032,146.73

17. Breakdown of assets impairment

This year

Item	Beginning balance	Increase	Decrease		Ending balance
			Reversed	Other transfer out	
Provision for bad debts	16,019,552.86	4,832,233.28	—	2,921,263.59	17,930,522.55
Provision for impairment of inventories	3,750,882.67	496,720.30	—	3,567,534.44	680,068.53
Total	19,770,435.53	5,328,953.58	—	6,488,798.03	18,610,591.08

Last year

Item	Beginning balance	Increase	Decrease		Ending balance
			Reversed	Other transfer out	
Provision for bad debts	6,252,750.61	10,185,301.46	11,670.71	406,828.50	16,019,552.86
Provision for impairment of inventories	3,073,802.89	840,169.96	—	163,090.18	3,750,882.67
Total	9,326,553.50	11,025,471.42	11,670.71	569,918.68	19,770,435.53

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Short-term loans

(1) Category of short-term loans

Category	Currency	Ending balance		
		Amount in original currency	Exchange rate	Amount in RMB
Guaranteed loans	RMB	260,000,000.00	1.0000	260,000,000.00
Guaranteed loans	US\$	48,024,710.90	6.0969	292,801,859.89
Total				552,801,859.89

Category	Currency	Beginning balance		
		Amount in original currency	Exchange rate	Amount in RMB
Guaranteed loans	RMB	255,714,237.93	1.0000	255,714,237.93
Guaranteed loans	US\$	45,689,423.43	6.2855	287,180,870.94
Total				542,895,108.87

Details of guarantee:

Lender	Currency	Loan principal in original currency	Guarantor
The Industrial Bank	RMB	120,000,000.00	Powerleader Holdings, Li Ruijie
Bank of China	US\$	8,388,967.50	Powerleader Holdings, Li Ruijie, Powerleader Computing
Construction Bank of China	US\$	24,891,341.40	Powerleader Holdings, Zhang Yunxia, Li Ruijie
Ping An Bank	US\$	8,148,898.00	Powerleader Holdings, Li Ruijie
	RMB	40,000,000.00	Powerleader Holdings, the Company
Citic Bank	RMB	100,000,000.00	Powerleader Holdings, Zhang Yunxiam Li Ruijie
Standard Chartered Bank	US\$	597,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
ANZ	US\$	4,718,504.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Bank of China (Hong Kong)	US\$	1,280,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping

Details of interest rates

As at 31 December 2013, the annual interest rates for the short-term loans was 1.9396% to 7.2000%, the weighted average annual interest rates 4.1210% (2012: annual interest rate was 1.3600% to 7.8720%, weighted average interest rate 5.3192%).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

19. Accounts payable

(1) Breakdown of accounts payable

Item	Ending balance	Beginning balance
Payables for purchase of raw material	155,828,719.12	148,363,192.93
Payables for construction	9,635,927.75	—
Total	165,464,646.87	148,363,192.93

(2) Aged analysis of accounts payable

The aged analysis of accounts payable presented based on recognition date as at 31 December 2013 is as follows:

Item	Ending balance	Beginning balance
Within 1 year	157,592,726.41	139,998,972.33
1 to 2 years	4,031,557.36	2,581,352.98
2 to 3 years	1,599,369.72	2,037,651.74
3 to 4 years	914,567.50	2,439,627.71
4 to 5 years	20,837.71	1,305,588.17
Over 5 years	1,305,588.17	—
Total	165,464,646.87	148,363,192.93

(3) There were no accounts payable due to shareholders holding over 5% (or 5%) of the Group's shares entitling voting rights as at end of the year.

(4) Accounts payable comprised the following balances in foreign currencies

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	22,628,793.70	6.0969	137,965,492.31	18,311,122.60	6.2855	115,094,561.13
Total			137,965,492.31			115,094,561.13

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

20. Receipts in advance

(1) Receipts in advance

Item	Ending balance	Beginning balance
Total	18,681,340.48	16,300,539.94
Over 1 year	66,671.46	47,941.00

There were no receipts in advance with significant amount aged over 1 year as at end of the year.

(2) There were no receipts in advance due to shareholders holding over 5% (or 5%) of the Group's shares entitling voting rights as at end of the year.

(3) Receipts in advance comprised the following balances in foreign currencies

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	496,646.75	6.0969	3,028,005.57	1,756,833.71	6.2855	11,042,578.28
Total			3,028,005.57			11,042,578.28

21. Employee emolument payables

Item	Beginning balance	Increase	Decrease	Ending balance
1. Short-term salaries	3,669,412.35	41,787,926.40	40,056,970.30	5,400,368.45
Salaries, bonus, allowance and subsidies	3,664,503.15	38,598,031.51	36,912,872.09	5,349,662.57
Staff welfare	4,909.20	1,570,807.21	1,575,716.41	—
Medical insurance	—	871,693.75	871,693.75	—
Injury insurance	—	57,728.68	57,728.68	—
Maternity insurance	—	70,295.65	70,295.65	—
Housing provident fund	—	459,174.92	459,174.92	—
Union operation cost and staff education cost	—	109,488.80	109,488.80	—
Accumulated compensated leaves	—	50,705.88	—	50,705.88
2. Post-employment benefits	—	2,499,399.24	2,499,399.24	—
Basic pension	—	2,368,939.37	2,368,939.37	—
Unemployment insurance	—	108,716.78	108,716.78	—
Mandatory provident funds	—	21,743.09	21,743.09	—
3. Termination benefits	—	—	—	—
Total	3,669,412.35	44,287,325.64	42,556,369.54	5,400,368.45



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

21. Employee emolument payables (continued)

- (1) The employee emolument payables as at end of the year represented the accrued salaries of December and accumulated compensated leave. Up to the date of approval of this financial report, the salaries of December 2013 were all handed out.
- (2) There were no overdue salaries as at end of 2013.
- (3) Post-employment benefits of the Group are defined contribution benefit schemes.

The employees of the Group in the PRC participated in a retirement benefit according to the Social Security Act and relevant rules and regulation. The scheme included basic pension insurance and unemployment insurance. Members are required to contribute a certain percentage of its payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The Group participates in a retirement benefits scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance, for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. The employer's contributions vested fully with the employees when contributed into the scheme. The only obligation of the Group with respect to the scheme is to make the specified contributions.

22. Tax payables

Item	Ending balance	Beginning balance
Business tax	238,625.36	293,528.62
VAT	4,037,645.18	(9,096,669.06)
Urban maintenance and construction tax	64,588.69	219,445.94
EIT	10,305,114.11	11,785,172.85
Individual income tax	118,372.98	65,913.47
Embankment fee	6,037.16	4,777.80
Stamp duty	1,215.92	1,255.46
Education surcharge	47,009.38	158,179.68
Others	205.84	3,615.02
Total	14,818,814.62	3,435,219.78

As at end of the year, tax payables included Hong Kong Profits Tax payable of RMB612,739.81.

23. Interest payables

Item	Ending balance	Beginning balance
Interest on long-term loan which requires to pay interest by instalments and repay principal at maturity	394,625.00	—
Total	394,625.00	—

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Other payables

(1) Other payables

Item	Ending balance	Beginning balance
Total	47,496,439.82	10,068,483.22
Including: Over 1 year	152,380.27	43,420.22

(2) Breakdown of other payables

Other payables	Ending balance	Beginning balance
Investment costs payable	38,000,000.00	—
Current account with operating units	6,818,595.23	9,391,740.65
Security for tendering	2,460,000.00	—
Current account with individuals	217,844.59	676,742.57
Total	47,496,439.82	10,068,483.22

(3) There were no other payables due to shareholders holding over 5% (or 5%) of the Group's shares entitling voting rights as at end of the year.

(4) Other payables to related parties

Other payables	Ending balance	Beginning balance
Sichuan Baoteng	32,000,000.00	—
Beijing Haiyun Jiexun	6,000,000.00	—
Shenzhen Network Communication Technology Limited	22,418.52	8,144.30
Total	38,022,418.52	8,144.306

25. Non-current liabilities repayable within one year

(1) Non-current liabilities repayable within one year

Item	Ending balance	Beginning balance
Long-term loans — repayable within 1 year	60,000,000.00	20,000,000.00
Total	60,000,000.00	20,000,000.00

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

25. Non-current liabilities repayable within one year (continued)

(2) Long-term loans due within 1 year

Lender	Loan Commencement date	Loan Maturity date	Currency	Interest rate (%)	Ending balance	Terms
Construction Bank of China	31 January 2013	30 January 2016	RMB	Floating interest rate	60,000,000.00	Guaranteed
Total					60,000,000.00	

26. Other current liabilities

Item	Ending balance	Beginning balance
Accrued market promotion expense	1,255,630.90	—
Accrued transportation fee	883,720.13	1,599,844.20
Others	392,839.48	451,458.28
Total	2,532,190.51	2,051,302.48

27. Long-term loans

Item	Ending balance	Beginning balance
Long-term bank loans	200,000,000.00	20,000,000.00
Less: Amount due within 1 year and classified under non-current liabilities repayable within 1 year (Note VI. 25)	60,000,000.00	20,000,000.00
Long-term loans due after 1 year	140,000,000.00	

(1) Analysis of maturity date of long-term loans

Item	Ending balance	Beginning balance
Within 1 year	60,000,000.00	20,000,000.00
1 to 2 years	140,000,000.00	—
Total	200,000,000.00	20,000,000.00

(2) Category of long-term loans

Item	Ending balance	Beginning balance
Guaranteed loans	200,000,000.00	20,000,000.00
Total	200,000,000.00	20,000,000.00

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Long-term loans (continued)

(3) Breakdown of long-term loans at end of the year

Lender	Commencement date	Due date	Currency	Interest rate (%)	Ending balance Amount in original currency	Beginning balance Amount in original currency
Shenzhen Branch of Construction Bank of China	31 January 2013	30 January 2016	RMB	Floating interest rate	200,000,000.00	—
Tianjin Aviatic Logistic Progress Zone Branch of Agricultural Bank of China	18 November 2009	18 November 2013	RMB	Floating interest rate	—	20,000,000.00
Total					200,000,000.00	20,000,000.00

Included in the ending balance of the year of the long-term loans of RMB200,000,000.00, RMB60,000,000.00 is due for repayment within 1 year. The loan contract number is "Jie2012 Liu 0578 Shangbu". The loan period is 3 years. The repayment schedule is in the ways that to repay RMB20 million each quarter starting from the 13th months from the date of the loan granted; to repay RMB40 million each quarter starting from the 25th Months of the date of the loan granted; and to repay the remaining balance at the maturity date of the loan.

The terms of the long-term loan were guaranteed loans, mortgaged loans and secured loans.

- 1) Guaranteed loans were "Bao 012Liu 0578 Shangbu-1", "Bao 2012 Liu 0578 Shangbu-2", "Bao 2012 Liu 0578 Shangbu-3", "Bao 2012Liu 0578 Shangbu-4". The guarantors were Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia respectively.
- 2) The mortgaged contract was the pledge of accounts receivable contract with contract no. "Zhi 2012Liu 0578 Shangbu". It has "Pledge of accounts receivable/transfer registration agreement" numbered "Xie 2012Liu 0578 Shangbu".
- 3) Included in the property secured list was Factory building and R&D centre of Guanlan Hi-Tech Park, Longhua New District, Guanlan Street, Baoan District, Shenzhen, the legal ownership certificate and other related certificate was "Shenfangdizi No. 5000559246", the area were 23,558.42 square meter and 8,607.82 square meter respectively. The amount secured was RMB92,367,352.00.

Interest rates:

The annual interest rates for long-term bank loan were 6.4% to 6.4575%, the weighted average rate was 6.4288% (2012: The annual interest rates were 6.4% to 6.65%, weighted average rate 6.5250%).

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

28. Other non-current liabilities

Item	Ending balance	Beginning balance
Deferred income of asset-related government grants	8,637,000.00	4,700,000.00
Less: Amount realisable within 1 year (Note VI.26)	—	—
Amount realisable after one year	8,637,000.00	4,700,000.00

(1) Government grants

Government grant item	Beginning balance	Government grant received for the year	Amount include in non-operating income	Ending balance	Asset-related/income related
R&D and industrialisation of high-performance servers applicable to Powercloud of cloud computing	800,000.00	—	—	800,000.00	Asset-related
R&D and industrialisation of Powerleader all domestic made high-performance servers	900,000.00	—	—	900,000.00	Asset-related
Construction of network information integrated management platform of cloud data	3,000,000.00	—	3,000,000.00	—	Income-related
R&D of Powerleader desk top computer based on safety and reliable CPU	—	800,000.00	—	800,000.00	Asset-related
Industrial application demonstraion project for Powerleader cloud computing data centre	—	1,200,000.00	—	1,200,000.00	Asset-related
R&D of intelligent logistics technology and its application system based on UHF RFID	—	87,000.00	—	87,000.00	Asset-related
R&D of Powerleader security data storage services platform based on cloud computing	—	450,000.00	—	450,000.00	Asset-related
Internet-based service-oriented industrialisation projects of intelligent distribution system undertaken by Shenzhen Powerleader Computing System Limited	—	2,000,000.00	—	2,000,000.00	Asset-related
R&D of Powerleader cloud operating system base on OpenStack	—	1,200,000.00	—	1,200,000.00	Asset-related
Powerleader cloud game platform	—	1,200,000.00	—	1,200,000.00	Asset-related
Total	4,700,000.00	6,937,000.00	3,000,000.00	8,637,000.00	

There was no return of government grants in 2012 and 2013.

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Share capital

This year

Name of shareholder/category	Beginning balance		Issue of new shares	Movements			Sub-total	Ending balance	
	Amount	Proportion (%)		Bonus issue	Transfer from capital reserves	Others		Amount	Proportion (%)
Shares with restrictions on trading									
State shares	—	—	—	—	—	—	—	—	—
National legal persons shares	—	—	—	—	—	—	—	—	—
Other domestic shares	182,250,000.00	75.00	—	—	—	—	182,250,000.00	75.00	
Including: Domestic legal person shares	150,000,000.00	61.73	—	—	—	—	150,000,000.00	61.73	
Domestic natural persons shares	32,250,000.00	13.27	—	—	—	—	32,250,000.00	13.27	
Foreign investors shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal persons shares	—	—	—	—	—	—	—	—	—
Domestic natural persons shares	—	—	—	—	—	—	—	—	—
Total of shares with restrictions on trading	182,250,000.00	75.00	—	—	—	—	182,250,000.00	75.00	
Shares without restrictions on trading									
RMB ordinary shares	—	—	—	—	—	—	—	—	—
Domestic listed foreign investors shares	—	—	—	—	—	—	—	—	—
Overseas listed foreign investors shares	60,750,000.00	25.00	—	—	—	—	60,750,000.00	25.00	
Others	—	—	—	—	—	—	—	—	—
Total of shares without restrictions on trading	60,750,000.00	25.00	—	—	—	—	60,750,000.00	25.00	
Total share capital	243,000,000.00	100.00	—	—	—	—	243,000,000.00	100.00	

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Share capital (continued)

Last year

Name of shareholder/category	Beginning balance		Issue of new shares	Movements			Sub-total	Ending balance	
	Amount	Proportion (%)		Bonus issue	Transfer from capital reserves	Others		Amount	Proportion (%)
Shares with restrictions on trading									
State shares	—	—	—	—	—	—	—	—	—
National legal persons shares	—	—	—	—	—	—	—	—	—
Other domestic shares	182,250,000.00	75.00	—	—	—	—	—	182,250,000.00	75.00
Including: Domestic legal person shares	150,000,000.00	61.73	—	—	—	—	—	150,000,000.00	61.73
Domestic natural persons shares	32,250,000.00	13.27	—	—	—	—	—	32,250,000.00	13.27
Foreign investors shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal persons shares	—	—	—	—	—	—	—	—	—
Domestic natural persons shares	—	—	—	—	—	—	—	—	—
Total of shares with restrictions on trading	182,250,000.00	75.00	—	—	—	—	—	182,250,000.00	75.00
Shares without restrictions on trading									
RMB ordinary shares	—	—	—	—	—	—	—	—	—
Domestic listed foreign investors shares	—	—	—	—	—	—	—	—	—
Overseas listed foreign investors shares	60,750,000.00	25.00	—	—	—	—	—	60,750,000.00	25.00
Others	—	—	—	—	—	—	—	—	—
Total of shares without restrictions on trading	60,750,000.00	25.00	—	—	—	—	—	60,750,000.00	25.00
Total share capital	243,000,000.00	100.00	—	—	—	—	—	243,000,000.00	100.00

30. Capital reserves

This year

Item	Beginning balance	Increase	Decrease	Ending balance
Share premium	25,875,000.00	—	—	25,875,000.00
Other capital reserves	2,854,862.88	3,257,388.97	—	6,112,251.85
Total	28,729,862.88	3,257,388.97	—	31,987,251.85

Last year

Item	Beginning balance	Increase	Decrease	Ending balance
Share premium	25,875,000.00	—	—	25,875,000.00
Other capital reserves	2,820,256.17	34,606.71	—	2,854,862.88
Total	28,695,256.17	34,606.71	—	28,729,862.88

The movements in other capital reserves for this year were the corresponding adjustments of the other equity movements of associates.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

31. Surplus reserves

This year

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	34,601,238.65	—	—	34,601,238.65
Total	34,601,238.65	—	—	34,601,238.65

Last year

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	31,141,640.70	3,459,597.95	—	34,601,238.65
Total	31,141,640.70	3,459,597.95	—	34,601,238.65

According to the PRC Company Acts and the articles of the Company, the Company is required to transfer 10% of net profit for the year to surplus statutory reserves, until balance is 50% of the registered capital. Surplus reserves can be used to offset any future losses and increase share capital. The net profit for this year is negative. No transfer was made to the statutory surplus reserves (2012: a transfer of RMB3,459,597.95 was made based on 10% of net profit).

32. Undistributed profits

Item	This year	Last year
Ending balance of previous year	399,561,058.90	336,427,671.18
Add: Adjustments to beginning balance of undistributed profits Including: Corrections of prior period	— —	— —
Beginning balance of the year	399,561,058.90	336,427,671.18
Add: Net profit attributable to shareholders of the Company	50,223,721.86	78,742,985.67
Less: Transfer to statutory surplus reserves Appropriation of ordinary share dividend	— 12,150,000.00	3,459,597.95 12,150,000.00
Ending balance of the year	437,634,780.76	399,561,058.90

Details of distribution of ordinary share dividend: The resolution of 2012 Annual General Meeting held on 26 June 2013: Final dividends of RMB0.005 (including tax) per shares totalling RMB12,150,000.00 according to the 2012 operating results for the year ended 31 December 2012 as announced on 27 March 2013 be paid to the shareholders who were on the shareholder's register on the record date.

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

33. Minority interests

Name of subsidiary	Proportion of minority shareholding	Ending balance	Beginning balance
Powerleader Property	1%	(2,046.55)	(1,721.09)
Powerleader Communication	10%	(20,574.27)	(140,849.75)
Nanjing Powerleader	1%	487,339.36	300,641.44
Total		464,718.54	158,070.60

Amount in minority interests used to write down the losses of minority interests

Name of subsidiary	This year	Last year
Powerleader Property	2,046.55	1,721.09
Powerleader Communication	20,574.27	140,849.75
Total	22,620.82	142,570.84

34. Net current assets

Item	Ending balance	Beginning balance
Current assets	1,183,769,228.37	982,561,638.42
Less: Current liabilities	867,590,285.64	747,615,485.47
Net current assets	316,178,942.73	234,946,152.95

35. Total assets less current liabilities

Item	Ending balance	Beginning balance
Total assets	1,765,428,578.85	1,461,978,489.70
Less: Current liabilities	867,590,285.64	747,615,485.47
Total assets less current liabilities	897,838,293.21	714,363,004.23

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Borrowings

For the purposes of reporting under Hong Kong Companies Ordinance, the borrowings of the Group are summarized as follows:

Item	Ending balance	Beginning balance
Short-term bank loans	552,801,859.89	542,895,108.87
Long-term loans	200,000,000.00	20,000,000.00
Total	752,801,859.89	562,895,108.87

(1) Analysis of borrowings

Item	Ending balance	Beginning balance
Bank loans		
— Wholly repayable within 5 years	752,801,859.89	562,895,108.87
— Wholly repayable after 5 years	752,801,859.89	562,895,108.87
Total	752,801,859.89	562,895,108.87

(2) Analysis of maturity date of the loans

Item	Ending balance	Beginning balance
On demand or within 1 year	612,801,859.89	562,895,108.87
1 to 2 years	140,000,000.00	—
Total	752,801,859.89	562,895,108.87

37. Operating revenue and operating costs

Item	This year	Last year
Operating revenue	1,553,056,430.51	1,740,775,447.19
Other operating revenue	7,621,499.82	9,997,127.50
Total	1,560,677,930.33	1,750,772,574.69
Operating costs	1,372,159,761.05	1,524,421,254.70
Other operating costs	4,199,255.25	5,573,868.77
Total	1,376,359,016.30	1,529,995,123.47

Operating revenue, which is also the Group's turnover, represents the net amounts received and receivables for sale of goods and rendering of services by the Group to outside customers, less trade discounts during the year.

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

37. Operating revenue and operating costs (continued)

Gross profit

Item	This year	Last year
Operating revenue	1,553,056,430.51	1,740,775,447.19
Operating costs	1,372,159,761.05	1,524,421,254.70
Gross profit	180,896,669.46	216,354,192.49

(1) Operating revenue and operating costs — by principal operations

Operations	This year	
	Operating revenue	Operating costs
Cloud infrastructure as a service	421,329,861.50	316,016,300.93
Cloud module as a service	1,117,986,407.29	1,049,874,801.75
Software and platform as a service	13,740,161.72	6,268,658.37
Total	1,553,056,430.51	1,372,159,761.05

Operations	Last year	
	Operating revenue	Operating costs
Cloud infrastructure as a service	361,134,365.40	263,875,098.89
Cloud module as a service	1,374,472,375.48	1,255,588,011.33
Software and platform as a service	5,168,706.31	4,958,144.48
Total	1,740,775,447.19	1,524,421,254.70

(2) Operating revenue and operating costs — by geographical locations

Location	This year	
	Operating revenue	Operating costs
Domestic (Excluding Hong Kong)	1,080,816,193.18	938,300,593.90
Hong Kong	289,790,689.03	258,442,415.42
Others	182,449,548.30	175,416,751.73
Total	1,553,056,430.51	1,372,159,761.05

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Operating revenue and operating costs (continued)

Gross profit (continued)

(2) Operating revenue and operating costs — by geographical locations (continued)

Location	Last year	
	Operating revenue	Operating costs
Domestic (Excluding Hong Kong)	1,293,098,915.54	1,103,319,215.79
Hong Kong	391,783,505.72	371,501,063.57
Others	55,893,025.93	49,600,975.34
Total	1,740,775,447.19	1,524,421,254.70

(3) Other operating revenue and other operating costs

Operations	This year		Last year	
	Other operating revenue	Other operating costs	Other operating revenue	Other operating costs
Service fee	6,220,016.47	3,835,872.84	8,135,580.50	5,070,525.10
Leasing	1,374,881.00	363,382.41	1,817,372.00	503,343.67
Others	26,602.35	—	44,175.00	—
Total	7,621,499.82	4,199,255.25	9,997,127.50	5,573,868.77

(4) Operating revenue from top five customers for this year was RMB424,437,364.15 (Last year: RMB544,032,561.30) representing 26.46% (Last year: 31.07%) of total operating revenue. The details are as follows:

Name of customer	Operating revenue	Proportion to total operating revenue (%)
The First	133,965,706.70	8.58
The Second	109,913,218.55	7.04
The Third	62,985,969.38	4.04
The Fourth	61,613,537.88	3.95
The Fifth	55,958,931.64	3.59
Total	424,437,364.15	27.20

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Business taxes and additional taxes

Item	This year	Last year	Payment basis
Business tax	205,467.97	519,666.74	5%
Urban maintenance and construction tax	1,193,598.34	1,125,854.58	7%
Education surcharge	852,260.46	787,955.95	3%, 2%
Others	309.75	30,199.12	
Total	2,251,636.52	2,463,676.39	

39. Selling expenses

Item	This year	Last year
Total	42,666,930.00	39,637,288.83
Including: Salaries	17,373,839.76	15,719,983.90
Market promotion expense	5,838,234.49	4,385,538.25
Rental	2,927,194.03	3,131,626.96
Labour insurance	2,124,774.18	1,678,644.70
Freight	1,972,597.02	3,374,486.54
Travelling	1,789,594.31	1,714,151.12
Transportation	1,772,873.57	1,389,261.64
Entertainment	1,411,251.10	1,489,478.67
Advertising	1,215,812.23	291,497.48
Property management fee	1,121,137.71	772,659.58

40. Administrative expenses

Item	This year	Last year
Total	54,415,288.51	60,018,964.46
Including: Amortisation of intangible assets	16,047,464.46	16,444,594.92
Salaries	11,232,286.32	9,612,718.97
Depreciation	8,870,610.07	8,606,867.89
Taxes	2,659,416.03	2,737,760.85
R&D expenses	2,492,538.07	3,601,907.55
Water and electricity	1,927,477.19	2,036,003.29
Audit fee	1,921,568.33	1,980,260.00
Listing fee	1,854,287.02	1,220,858.70
Staff welfare	967,548.00	1,071,174.74
Staff social security insurance	923,750.58	888,400.57

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Finance costs

(1) Breakdown of finance costs

Item	This year	Last year
Interest expenses	46,234,428.94	44,186,560.74
Less: Interest income	777,683.45	1,513,882.85
Add: Loss on exchange	7,062,587.63	2,947,092.87
Less: Gain on exchange	10,988,874.07	1,376,304.02
Handling charges	3,814,322.36	4,946,489.19
Total	45,344,781.41	49,189,955.93

(2) Breakdown of interest expenses

Item	This year	Last year
Interest on bank loans	46,234,428.94	44,186,560.74
Sub-total	46,234,428.94	44,186,560.74
Less: Amount capitalised	—	—
Total	46,234,428.94	44,186,560.74

(3) Breakdown of interest income

Item	This year	Last year
Interest income on bank deposits	777,683.45	1,513,882.85
Total	777,683.45	1,513,882.85

42. Impairment losses of assets

Item	This year	Last year
Bad debts	4,832,233.28	10,173,630.75
Impairment loss on inventories	496,720.30	840,169.96
Total	5,328,953.58	11,013,800.71

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

43. Gain/loss on changes in fair value

Item	This year	Last year
Financial assets at fair value through profit or loss	183,505.65	178,693.25
Including: Gain on changes in fair value of derivative financial assets	183,505.65	178,693.25
Total	183,505.65	178,693.25

The gain on changes in fair value for this year was raised from the changes in fair value of foreign currency forward contracts held by Ex-channel.

44. Investment income

(1) Source of investment income

Item	This year	Last year
Long-term equity investments accounted for using equity method	8,702,275.77	1,623,572.00
Disposal of long-term equity investments	2,000,000.00	—
Holding of derivative financial assets	363,372.60	153,714.39
Total	11,065,648.37	1,777,286.39

Investment loss arising from listed equity investments and non-listed equity investments for the year were RMB7,807,181.83 and RMB3,258,466.54.

There are no significant restrictions on remittance of investment gains back to the Company.

(2) Long-term equity investments accounted for using equity method

Item	This year	Last year	Reason for changes
Zqgame	7,807,181.83	1,623,572.00	Changes in operating results
Beijing Haiyun Jiexun Technology Limited	(292,302.05)	—	Changes in operating results
Sichuan Baoteng	1,187,395.99	—	Changes in operating results
Total	8,702,275.77	1,623,572.00	

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VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Non-operating revenue

(1) Breakdown of non-operating revenue

Item	This year	Last year	Recorded as non-recurring profit or loss
Gain on disposal of non-current assets	5,214.53	84,911.62	5,214.53
Including: Gain of disposal of fixed assets	5,214.53	84,911.62	5,214.53
Government grants	7,988,319.22	9,163,594.65	3,816,350.00
Waiver of payables	2,920,638.69	1,600,000.00	2,920,638.69
Marketing sponsors	346,381.14	—	346,381.14
Others	126,635.25	9,381.19	126,635.25
Total	11,387,188.83	10,857,887.46	7,215,219.61

The amount recorded as non-recurring profit or loss for this year was RMB7,215,219.61 (Last year: RMB6,638,382.81).

(2) Breakdown of government grants

Item	Amount received in this year	Source and basis	Asset-related/ income-related
Support for 3 New R&D, intellectual properties special incentives (Utility patent of new model)	4,000.00	Utility patent certificate for new model	Income-related
2012 Hi-Technology Meeting subsidies	82,750.00	Municipal SME service centre	Income-related
Subsidies for patent application	14,000.00	Patent cooperation treaty and State intellectual properties	Income-related
Accredited as 2012 intellectual properties advantageous enterprise	200,000.00	Intellectual Property Bureau of Shenzhen	Income-related
Comprehensive support — payment of loan interest	500,000.00	Futian industrial development project funds review committee office	Income-related
IPR Awards — software copyrights registration	3,600.00	Finance Bureau of Futian, Shenzhen	Income-related
Patents on a socket type SSDs	10,000.00	Intellectual Property Bureau of the PRC	Income-related
Patents on a key-link cabinet	2,000.00	Intellectual Property Bureau of the PRC	Income-related
Pay-and-refund of VAT	4,171,969.22	Caishui [2011] 100 issued by State Tax Bureau, Ministry of Finance	Income-related
Construction of comprehensive information management platform based on cloud data	3,000,000.00	Shenfagai [2011] No. 670	Income-related
Total	7,988,319.22		

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

45. Non-operating revenue (continued)

(2) Breakdown of government grants (continued)

Item	Amount received in last year	Source and basis	Asset-related/ income-related
Finance project for SME Technology Innovation	420,000.00	Contract for Finance project for SME Technology Innovation	Income-related
Pay-and-refund of VAT	4,219,504.65	Caishui [2011] 100 issued by State Tax Bureau, Ministry of Finance	Income-related
Grants for cloud game project	500,000.00	Shenzhen Economic Trade and Information Technology Committee	Income-related
Powerleader powersoft load balancer	170,000.00	SME Technology Innovation Funds Management Centre of Ministry of Technology (Project code: 11C26214423247)	Income-related
Cloud game network platform	610,000.00	Municipal Bureau of Sport and Tourism of Shenzhen	Income-related
Subsidies for enterprise R&D projects	50,000.00	Subsidies for enterprise R&D projects (Shenbaogui [2009] 23)	Income-related
Development project fund for Shenzhen SME	31,990.00	Gongxinbu Qiye [2011] 360	Income-related
Interest for discounting of 2007 Shenzhen SME bonds	576,100.00	Interest for discounting of 2007 Shenzhen SME bonds	Income-related
Industrial development fund	500,000.00	Industrial development fund management method of Futian, Shenzhen	Income-related
Funds for internet projects	1,500,000.00	Internet project fund of Shenzhen (Shenfu [2009] 238)	Income-related
District industrial development project funds	500,000.00	"Temporary method for Shenzhen Futian Enterprise development fund"	Income-related
Refund of EIT	86,000.00	Guoshuifa [1995] 065	Income-related
Total	9,163,594.65		

46. Non-operating costs

Item	This year	Last year	Recorded as non-recurring profit or loss
Loss on disposal of non-current assets	103,662.27	60,305.31	103,662.27
Including: Loss on disposal of fixed assets	103,662.27	60,305.31	103,662.27
Donation	45,000.00	—	45,000.00
Exceptional loss	405.57	31,329.67	405.57
Others	130,088.54	329,086.03	130,088.54
Total	279,156.38	420,721.01	279,156.38

Non-operating costs recorded as non-recurring profit or loss for this year was RMB279,156.38 (Last year: RMB420,721.01).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Auditor's remuneration

The auditor's remuneration for 2013 was RMB796,557.50 (2012: RMB796,557.50).

48. Income tax expenses

(1) Income tax expenses

Item	This year	Last year
Current income tax	9,347,709.35	(8,195,180.81)
Deferred income tax	(3,009,568.67)	353,010.83
Total	6,338,140.68	(7,842,169.98)

(2) Current income tax

Item	This year	Last year
Current income tax		
PRC	5,367,491.40	3,325,089.71
Hong Kong	2,096,131.89	2,187,627.78
Sub-total	7,463,623.29	5,512,717.49
Under-provision for prior years (over-provision is denoted as "(")		
PRC	1,588,493.97	—
Hong Kong	295,592.09	(13,707,898.30)
Sub-total	1,884,086.06	(13,707,898.30)
Total	9,347,709.35	(8,195,180.81)

The amount of Hong Kong Profits Tax recorded in the income statement was RMB1,509,410.07 (Last year: RMB(11,545,302.81)).

The income tax expenses for last year was negative. It was mainly because the offshore income the application filed to the tax authority by Ex-channel was approved in last year and the amount over-provided in prior years of RMB13.71 million were reversed.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Income tax expenses (continued)

(3) Reconciliation of total profit based on the income statement to current income tax for the year

Item	This year	Last year
Total profit	56,668,510.48	70,846,910.99
Income tax calculated at applicable tax rates of 15% (1012: 15%)	8,500,276.57	10,627,036.64
Tax effect of non-taxable income	(4,630,812.64)	(11,838,448.64)
Tax effect of no-deductible expenses	(2,895,802.81)	(985,937.35)
Tax effect of special tax exemption	(521,496.15)	(2,027,773.95)
Effect of inconsistent tax rate among subsidiaries	(141,963.46)	747,217.24
Utilisation of unrecognised deductible temporary differences	(303,582.66)	(5,215,288.07)
Unrecognised deductible losses and deductible temporary differences	4,447,435.77	7,371,759.68
Under-provision/over-provision in prior years	1,884,086.06	(13,707,898.30)
Adjustment to beginning balance of deferred income assets/deferred income liabilities as a result of change in tax rate	—	—
Income tax expenses	6,338,140.68	(7,842,169.98)

49. Depreciation and amortization

Depreciation recognised in income statement for this year was RMB10,023,012.12 (Last year: RMB9,341,246.94), amortisation recognised in come statement for this year was RMB17,644,480.69 (Last year: RMB17,473,956.63).

50. Operating lease expenses

Operating leases payment for this year was RMB3,036,733.95 (Last year: RMB3,491,176.96).

51. Rental income

Rental income from land and building (net of government rent, rates and other expenditure) was RMB1,374,881.00 (Last year: RMB1,817,372.00).

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1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

52. Earnings per share

(1) Basic earnings per share

The basic earnings per share is arrived at dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issued.

Item	This year	Last year
Consolidated net profit attributable to the ordinary shares shareholders of the Company	50,223,721.86	78,742,985.67
Consolidated net profit (after deducting non-recurring profit or loss) attributable to the ordinary shares shareholders of the Company	42,069,615.26	73,182,102.25
Weighted average number ordinary shares of the Company in issue	243,000,000.00	243,000,000.00
Basic earnings per share (RMB/share)	0.2067	0.3240
Basic earnings per share (RMB/share) (after deducting non-recurring profit or loss)	0.1731	0.3012

The calculation of the weighted average of ordinary shares:

Item	This year	Last year
No. of ordinary shares in issue at the beginning of year	2,430,000,000.00	2,430,000,000.00
The increase in number of shares by transference of capital reserve transfer to increase capital or distribution of dividends (I)	—	—
The increase in number of shares by issue of new shares or converting debts to capital (II)	—	—
The number of months from the next month of increase in number of shares (II) to year end	—	—
The decrease in number of shares by re-purchase of shares	—	—
The number of months from the next month of the decrease in number of shares to year end	—	—
Reduction in number of shares consolidated	2,187,000,000.00	2,187,000,000.00
Number of months in reporting period	12	12
Weighted average number of ordinary shares in issue	243,000,000.00	243,000,000.00

On 11 November 2013, the share of the Company were consolidated. The number of shares used in the calculation of earnings per share for 2012 were re-stated to reflect this shares consolidation.

(2) Diluted earnings per share

As the Company has no dilutive potential shares for both years, the diluted earnings per share was the same as basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

53. Other comprehensive income

Item	This year	Last year
1. Gain/(loss) on available-for-sale financial assets	—	—
Less: Income tax effect on available-for-sale-financial assets	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Sub-total	—	—
2. Share of comprehensive income of investee accounted using equity method	(9,527.61)	4,334.26
Less: Income tax effect on share of comprehensive income of investee accounted using equity method	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Sub-total	(9,527.61)	4,334.26
3. Gain/(loss) on cash flow hedging instrument	—	—
Less: Tax effect on cash flow hedging instrument	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Amount transfer to as adjustment to the initial recognition amount of the hedged item	—	—
Sub-total	—	—
4. Exchange difference on translation of financial statements denomination of foreign currencies	—	—
Less: Net amount transfer to profit or loss for the year for the disposal of foreign operations	—	—
Sub-total	—	—
5. Others	—	—
Less: Income tax effect	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Sub-total	—	—
Total	(9,527.61)	4,334.26

54. Cash flow statement items

(1) Other cash receipts/Other cash payments relating to operating/investing/financing activities

1) Other cash receipts relating to operating activities

Item	This year	Last year
Current accounts with individuals and operating units	1,008,758.54	34,700,826.08
Government grants	7,753,350.00	9,183,594.65
Interest income	777,683.45	1,513,882.85
Security deposits	2,453,739.00	4,629,611.13
Others	5,358,384.43	222,805.51
Total	17,351,915.42	50,250,720.22

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Cash flow statement items (continued)

(1) Other cash receipts/Other cash payments relating to operating/investing/financing activities (continued)

2) Other cash payments relating to operating activities

Item	This year	Last year
Current accounts with individuals and operating units	47,497,834.79	18,984,191.09
Freight	2,144,529.90	3,702,826.94
Market promotion expenses	5,848,683.81	4,385,775.86
Rental	3,036,733.95	4,166,365.59
Travelling	2,281,569.27	2,739,082.24
Entertainment	2,021,711.93	2,381,017.27
Water and electricity	2,174,294.91	2,396,832.31
Telephone	1,108,154.19	1,376,260.05
Audit fee	1,921,568.33	1,980,260.00
Motor vehicle expenses	977,257.13	1,008,259.29
Transportation	1,959,303.78	1,652,139.01
Office expenses	1,724,658.45	1,747,582.73
Property management fee	1,145,029.87	791,487.43
Research and development	2,492,538.07	5,023,951.46
Bank charges	3,814,322.36	4,736,519.83
Others	3,465,350.06	5,927,148.28
Total	83,613,540.80	62,999,699.38

3) Other cash receipts relating to financing activities

Item	This year	Last year
Unfreeze of security deposit for letter of credits	8,503,522.38	1,513,880.00
Total	8,503,522.38	1,513,880.00

4) Other cash payments relating to financing activities

Item	This year	Last year
Security deposit for letter of credits	—	23,080,410.60
Listing fee	—	1,600,000.00
Total	—	24,680,410.60

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(continued)

54. Cash flow statement items (continued)

(2) Supplementary information for consolidated cash flow statement

Item	This year	Last year
1. Reconciliation of net profits to cash flows from operating activities		
Net profit	50,330,369.80	78,689,080.97
Add: Assets impairment losses	(5,328,953.58)	11,013,800.71
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of bearer biological assets	10,023,012.12	9,341,246.94
Amortisation of intangible assets	17,561,988.16	17,473,956.63
Amortisation of long-term prepayments	82,492.53	—
Loss (Gain) on disposal of fixed assets, intangible assets and other long-term assets (Gain is denoted as “()”)	98,447.74	(24,606.31)
Loss on scrapping of fixed assets (Gain is denoted as “()”)	—	—
Gain loss on changes in fair value (Gain is denoted as “()”)	(183,505.65)	(178,693.25)
Finance costs (income is denoted as “()”)	46,234,428.94	44,186,560.74
Gain loss on investment (Gain is denoted as “()”)	(11,065,648.37)	(1,777,286.39)
Increase in deferred income tax assets (increase is denoted as “()”)	(988,469.02)	—
Decrease in deferred tax liabilities (Decrease is denoted as “()”)	(2,099,469.79)	(70,330.30)
Increase in inventories (Increase is denoted as “()”)	(12,819,763.29)	(42,359,556.48)
Increase in operating receivables (Increase is denoted as “()”)	(65,830,348.17)	(21,905,756.03)
Increase/(Decrease) in operating payables (Decrease is denoted as “()”)	24,709,674.91	(46,338,389.09)
Others	—	—
Net cash flow from operating activities	50,724,256.33	48,050,028.14
2. Significant non-cash investing and financing transactions		
Debts transfer to as capital		
Convertible corporate bonds due within 1 year		
Acquisition of fixed assets under finance leases		
3. Changes in cash and cash equivalents		
Ending balance of cash	331,919,213.53	190,209,150.73
Less: Beginning balance of cash	190,209,150.73	331,226,004.71
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	141,710,062.80	(141,016,853.98)

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VI. EXPLANATORY NOTES FOR MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Cash flow statement items (continued)

(3) Information of acquisition of or disposal of subsidiaries or other operating units

Item	This year	Last year
Information on disposal of subsidiaries		
1. Consideration of disposal of subsidiaries or other operating undertakings	—	—
2. Cash and cash equivalents received from disposal of subsidiaries or other operating units	173,563.48	—
Less: Cash and cash equivalent balance of the disposing subsidiaries or other operating units	173,563.48	—
3. Net cash received from disposal of subsidiaries or other operating units	—	—
4. Net assets of the disposing subsidiaries	337,793.68	—
Current asset	501,779.86	—
Non-current asset	—	—
Current liability	163,986.18	—
Non-current liability	—	—

(4) Cash and cash equivalents

Item	This year	Last year
Cash	331,919,213.53	190,209,150.73
Including: Cash in hand	573,590.67	1,117,858.38
Bank deposits readily available for payments	331,345,622.86	189,091,292.35
Other bank deposit and cash readily available for payments	—	—
Cash equivalents	—	—
Including: Investments in bonds with maturity date within 3 months	—	—
Ending balance of cash and cash equivalents	331,919,213.53	190,209,150.73
Restricted cash and cash equivalents of the company or subsidiaries	—	—

55. Shareholder's equity statement items

The "Other" of RMB3,266,916.58 included in the shareholder's equity statements for this year: capital reserves of RMB1,433,583.25 arising from share based payments of Zqgame; 2) share premium of RMB1,833,333.33 of Beijing Haiyun. Last year, the "Other" included capital reserves of RMB30,272.45 arising from share based payments of Zqgame.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Relationships of related parties

1. Controlling shareholder and ultimate controlling shareholder

(1) Controlling shareholder

Name	Business structure	Place of registration	Business nature	Legal representative	Organisation code
Powerleader Holdings	Incorporated with limited liabilities	Shenzhen	Investment	Li Ruijie	104031018

(2) Ultimate controlling shareholders

The ultimate controlling shareholders of the Group were Li Ruijie and Zhang Yunxia.

(3) Registered capital of controlling shareholder and its movements

Name of controlling shareholder	Beginning balance	Increase	Decrease	Ending balance
Powerleader Holdings	RMB128 million	—	—	RMB128 million

(4) The Shareholdings of controlling shareholder and its movements

Controlling shareholder	Amount of shareholding		Proportion of shareholding (%)	
	Ending balance	Beginning balance	Ending proportion	Beginning proportion
Powerleader Holdings	RMB102.1845 million	RMB102.1845 million	42.05	42.05

2. Subsidiaries

(1) Subsidiaries

The details of the subsidiaries of the Group are set out in Note V.1.

(2) Registered capital of subsidiaries and their changes

There were no changes in the registered capital of the subsidiaries during the year.

(3) The shareholdings in subsidiaries and their changes

Except for the details listed as follows, there no other changes in shareholding or equity holdings in subsidiaries:

Name of subsidiary	Amount of shareholding		Proportion of shareholding (%)	
	Ending balance	Beginning balance	Ending proportion	Beginning proportion
Nanjing Powerleader	49,500,000.00	29,700,000.00	99.00	99.00
Baozhongyun	—	2,000,000.00	—	100.00

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

1. Relationships of related parties *(continued)*

3. Joint Ventures and associates

Name of investee	Business structure	Place of registration	Business nature	Legal representative	Registered capital (RMB Million)	Proportion of shareholding (%)	Proportion of voting rights (%)	Organisation code
Zqgame	Incorporated with limited liabilities	Shenzhen	Industrial	Li Ruijie	260.00	15.30	15.30	75252459-5
Beijing Haiyun Jiexun Technology Limited	Incorporated with limited liabilities	Beijing	Technology development services	Li Hua	6.6667	25.00	33.33	556899496
Sichuan Baoteng	Incorporated with limited liabilities	Chengdu	Development and sales of softwares	Zhang Kan	1.9608	49.00	66.67	07769725-6

4. Other related parties

Nature of relationships	Name of related party	Details of transaction	Organisation code
(1) Other enterprise under the common control of controlling shareholder and ultimate controlling shareholder	Shenzhen Subita Network Technology Limited	Sale/purchase of goods	77558857-5
	Shenzhen Zhuoye Interactive Network Technology Limited	Sales/purchase of goods	79797118-8
(2) Other related party	Shenzhen Yingbao Communication Technology Limited	Current accounts	56154993-3
	Dong Weiping	Provision of guarantee	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions

1. The Group

(1) Purchase of goods

Category of related party/ name of related party	Details of transaction	Pricing policy and procedures for decision- making	This Year		Last year	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Other enterprises under common control of controlling shareholder and ultimate controlling shareholder						
Shenzhen Subita Network Technology Limited	Purchase of goods	Contracted price	31,000.00	0.0018	103,890.00	0.01
Shenzhen Yingbao Communication Technology Limited	Purchase of goods	Contracted price	26,711.28	0.0015	—	—
Total			57,711.28	0.0033	103,890.00	0.01

(2) Sales of goods

Category of related party/name of related party	Details of transaction	Pricing policy and procedures for decision-making	This Year		Last year	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Controlling shareholder and ultimate controlling shareholder						
Powerleader Holdings			3,162.39	0.0002	—	—
Jointly controlled entities and associates						
Zqgame	Sales of goods	Contracted price	1,422,736.05	0.0916	18,661,000.00	1.0720
Other enterprises under common control of controlling shareholder and ultimate controlling shareholder						
Shenzhen Zhuoye Interactive Network Technology Limited	Sales of goods	Contracted price	49,669.41	0.0032	259,950.43	0.0149
Shenzhen Subita Network Technology Limited	Sales of goods	Contracted price	—	—	6,942,550.43	0.3988
Total			1,475,567.85	0.0950	25,863,500.86	1.4857

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

1. The Group (continued)

(3) Leasing with related parties

2013

Name of lessor	Name of lessee	Details of leased assets	Amount of leased assets	Lease commencement date	Lease termination date	Rental income	Basis for rental income recognition	Effect of rental income to the Company
Associates								
The Company	Zqgame	43A Block C, Electronics Science & Technology Building	267,072.03	27 April 2013	27 April 2014	39,600.00	Market rate	Minimal
Ultimate controlling shareholder								
Zhang Yunxia	Powerleader Computing	Office of Beijing Sales Platform	2,225,155.40	1 May 2013	30 April 2015	279,396.00	Market rate	Minimal

2012

Name of lessor	Name of lessee	Details of leased assets	Amount of leased assets	Lease commencement date	Lease termination date	Rental income	Basis for rental income recognition	Effect of rental income to the Group
Associates								
The Company	Zqgame	43A Block C, Electronic Science & Technology Building	267,072.03	27 April 2012	27 April 2013	39,600.00	Market rate	Minimal
Ultimate controlling shareholder								
Zhang Yunxia	Powerleader Computing	Office of Beijing Sales Platform	2,225,155.40	1 May 2011	30 April 2013	279,396.00	Market rate	Minimal

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

1. The Group *(continued)*

(4) Guarantee with related parties

Guarantor	Secured party	Ending balance	Beginning balance
Powerleader Holdings, Li Ruijie	The Company	169,683,016.22	192,620,000.00
Powerleader Holdings, The Company	Powerleader Computing	40,000,000.00	
Powerleader Holdings, Li Ruijie	Powerleader Computing		40,000,000.00
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	51,146,695.95	90,008,697.08
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	151,760,019.38	114,899,616.60
Powerleader Holdings, Li Ruijie, Zhang Yunxia	Ex-channel		23,183,782.05
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	200,000,000.00	50,740,648.80
Powerleader Holdings, Li Ruijie, Zhang Yunxia	Baotong Zhiyuan		714,237.94
Li Ruijie, Zhang Yunxia, Hong Kong Powerleader, Zhang Yunxia, Li Ruijie, Dong Weiping	The Company	100,000,000.00	
	Ex-channel	40,212,128.34	30,728,126.40
Total		752,801,859.89	542,895,108.87

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

1. The Group (continued)

(4) Guarantee with related parties (continued)

Guarantor	Secured party	Amount guaranteed	Commencement date of guarantee	Expiry date of guarantee	Completed
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	12,773,219.42	9 January 2013	9 April 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie,	Ex-channel	12,539,579.05	1 February 2013	2 May 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	14,259,823.87	26 February 2013	28 May 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	24,408,676.43	23 April 2013	22 July 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	22,795,177.88	13 May 2013	12 August 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	23,405,140.34	29 May 2013	27 August 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	12,967,721.60	7 June 2013	5 September 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	25,413,093.20	13 June 2013	6 September 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	21,668,466.80	2 July 2013	30 September 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	13,040,497.20	5 July 2013	30 September 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	18,613,640.00	11 July 2013	9 October 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	12,591,580.00	30 July 2013	28 October 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	17,359,956.60	29 August 2013	27 November 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	Ex-channel	20,606,394.40	3 September 2013	2 December 2013	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	26,912,429.94	24 October 2013	22 January 2014	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	22,907,059.29	30 October 2013	29 January 2014	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,053,771.05	6 November 2013	29 January 2014	No
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	5,048,000.00	8 May 2013	22 July 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	6,181,648.00	14 November 2013	17 December 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	12,620,000.00	21 February 2013	17 April 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	12,620,000.00	3 May 2013	16 July 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	12,400,000.00	7 October 2013	6 December 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	3,706,980.00	18 October 2013	17 December 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	3,639,849.30	24 December 2013	6 March 2014	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	24,362,910.00	2 May 2013	2 July 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	5,609,590.00	9 May 2013	7 August 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	5,394,000.00	11 July 2013	9 October 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	12,416,417.60	5 September 2013	29 November 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	8,342,100.00	26 September 2013	27 December 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	8,171,675.07	24 October 2013	22 January 2014	No
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	12,540,079.53	2 December 2013	3 March 2014	No
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	8,056,492.44	13 December 2013	13 March 2014	No
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	8,076,800.00	9 May 2013	6 July 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	7,898,180.00	11 July 2013	27 September 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	7,936,000.00	3 October 2013	5 December 2013	Yes
Hong Kong Powerleader , Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	7,804,032.00	6 December 2013	23 February 2014	No
Powerleader Holdings, Li Ruijie	Powerleader Computing	40,000,000.00	4 March 2013	4 September 2013	No
Powerleader Holdings, The Company	Powerleader Computing	40,000,000.00	6 September 2013	6 September 2014	No
Powerleader Holdings, Li Ruijie	The Company	90,000,000.00	4 January 2013	16 March 2013	Yes
Powerleader Holdings, Li Ruijie	The Company	10,000,000.00	27 February 2013	20 February 2014	No
Powerleader Holdings, Li Ruijie	The Company	90,000,000.00	7 March 2013	20 February 2014	No
Powerleader Holdings, Li Ruijie	The Company	20,000,000.00	15 October 2013	20 May 2014	No
Powerleader Holdings, Li Ruijie	The Company	50,000,000.00	6 March 2013	6 September 2013	Yes
Powerleader Holdings, Li Ruijie	The Company	49,683,016.22	9 September 2013	7 March 2014	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	35,000,000.00	1 April 2013	1 October 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	10,000,000.00	21 February 2013	21 August 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	60,000,000.00	4 January 2013	4 January 2014	No
Li Ruijie, Zhang Yunxia	The Company	60,000,000.00	20 August 2013	20 February 2014	No
Li Ruijie, Zhang Yunxia	The Company	40,000,000.00	23 August 2013	23 February 2014	No

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1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

1. The Group (continued)

(4) Guarantee with related parties (continued)

Guarantor	Secured party	Amount guaranteed	Commencement date of guarantee	Expiry date of guarantee	Completed
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	2,229,924.74	13 November 2012	1 February 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	24,426,064.62	30 November 2012	28 February 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,148,382.04	7 December 2012	7 March 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	2,198,814.77	10 December 2012	8 March 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	12,047,979.94	11 December 2012	11 March 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	12,957,530.97	24 December 2012	22 March 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,261,907.87	25 February 2013	24 May 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	18,249,364.28	16 April 2013	15 July 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	3,408,325.68	3 May 2013	1 August 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	18,158,670.36	7 June 2013	5 September 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	22,172,130.00	21 August 2013	19 November 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	828,462.60	5 August 2013	1 November 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,596,661.20	12 August 2013	8 November 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	15,595,995.19	31 October 2013	29 January 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	11,494,333.15	20 November 2013	18 February 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	11,082,957.00	26 November 2013	24 February 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	11,136,292.70	3 December 2013	3 March 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,207,186.20	24 December 2013	24 March 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	629,931.71	27 December 2013	27 March 2014	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	24,273,610.00	9 November 2012	17 January 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,639,885.00	19 November 2012	17 February 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	13,827,153.80	10 December 2012	10 March 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	19,553,743.50	9 January 2013	1 April 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	20,126,054.19	14 January 2013	12 April 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	20,750,403.45	1 February 2013	2 May 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	23,655,880.81	1 February 2013	8 April 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,255,269.04	19 February 2013	20 May 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	19,730,007.04	6 March 2013	4 June 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,484,139.39	12 March 2013	10 June 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,773,219.42	9 April 2013	8 July 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,539,579.05	2 May 2013	31 July 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	14,259,823.87	28 May 2013	26 August 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	9,999,998.60	28 June 2013	1 July 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	23,795,000.00	22 July 2013	27 August 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,397,797.60	12 August 2013	29 October 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,997,126.80	27 August 2013	4 November 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,967,721.60	5 September 2013	4 December 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	21,668,466.80	29 September 2013	8 October 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	13,040,497.20	29 September 2013	28 December 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	18,304,113.18	8 October 2013	6 January 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,382,194.21	28 October 2013	26 January 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	9,703,950.42	3 November 2013	1 February 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,115,675.57	30 December 2013	26 March 2014	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	19,380,825.72	30 December 2013	27 March 2014	Yes
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	200,000,000.00	31 January 2013	30 January 2016	No
Total		1,899,277,048.51			

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

1. The Group (continued)

(5) Share investment transfer between related parties

Name of related party	Details of related party transaction	This year		Last year	
		Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Powerleader Holdings	Transfer of share investment	20,000,000.00	100.00	—	—

2. The Company

(1) Purchase of goods and receipt of services

Category of related party/ name of related party	Details of transaction	Pricing policy and procedures for decision-making	This year		Last year	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Subsidiary						
Including: Powerleader Computing	Purchase of goods	Contracted price	56,720,900.68	3.2411	10,178,768.41	7.8707
Powerleader, Hong Kong	Purchase of goods	Contracted price	40,403,651.37	2.3087	—	—
Ex-channel	Purchase of goods	Contracted price	3,218,222.22	0.1838	129,649.67	0.1003
Baotong Zhiyuan	Purchase of goods	Contracted price	2,470,718.29	0.1412	—	—
Powerleader Software	Purchase of goods	Contracted price	876,335.28	0.0501	—	—
Total			103,689,827.84	5.9249	10,308,418.08	7.9710

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

2. The Company (continued)

(2) Sales of goods and rendering of services

Category of related party/ name of related party	Details of transaction	Pricing policy and procedures for decision- making	This year		Last year	
			Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Controlling shareholder and ultimate controlling shareholder						
Including: Powerleaderholdings	Sales of goods	Contracted price	—	—	9,267.13	0.0067
Jointly-controlled entity joint venture and associate						
Including: Zqgame			—	—	167,948.72	0.1211
Subsidiary						
Including: Powerleader Computing	Sales of goods	Contracted price	8,561,098.05	4.0334	10,214,859.08	7.3628
Baoteng Internet	Sales of goods	Contracted price	841,025.64	0.3962		
Powerleader Software	Sales of goods	Contracted price	254,574.63	0.1199	129,649.66	0.0935
Baotong Zhiyuan	Sales of goods	Contracted price	217,827.35	0.1026	42,735.04	0.0308
Baozhongyun	Sales of goods	Contracted price	1,205.13	0.0006	—	—
Research Institute			—	—	4,195.73	0.0030
Total			9,875,730.80	4.6527	10,568,655.36	7.6179

(3) Leasing

2013

Name of lessor	Name of lessee	Leased assets	Amount of leased assets	Lease commencement date	Lease termination date	Rental income	Basis for rental income recognition	Effect of rental income to the Company
Associate								
The Company	Zqgame	43A Block C, Electronic Science & Technology Building	267,072.03	27 April 2013	27 April 2014	39,600.00	Market rate	Minimal

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

2. The Company (continued)

(3) Leasing (continued)

2012

Name of lessor	Name of lessee	Leased assets	Amount of leased assets	Lease commencement date	Lease termination date	Rental income	Basis for rental income recognition	Effect of rental income to the Company
Associate								
The Company	Zqgame	43A Block C, Electronics Science & Technology Building	267,072.03	27 April 2012	27 April 2013	39,600.00	Market rate	Minimal

(4) Guarantee with related parties

Guarantor	Secured party	Ending balance	Beginning balance
Powerleader Holdings, Li Ruijie	The Company	169,683,016.22	192,620,000.00
Powerleader Holdings, The Company	Powerleader Computing	40,000,000.00	
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	51,146,695.95	90,008,697.09
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	151,760,019.38	114,899,616.60
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	200,000,000.00	50,740,648.80
Li Ruijie, Zhang Yunxia	The Company	100,000,000.00	
The Company	Binhai Powerleader		20,000,000.00
Total		712,589,731.55	468,268,962.49

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

2. The Company (continued)

(4) Guarantee with related parties (continued)

Guarantor	Secured party	Amount of guarantee	Date of commencement	Date of termination	Completed
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	26,912,429.94	24 October 2013	22 January 2014	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	22,907,059.29	30 October 2013	29 January 2014	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,053,771.05	6 November 2013	29 January 2014	No
Powerleader Holdings, Li Ruijie	The Company	90,000,000.00	4 January 2013	16 March 2013	Yes
Powerleader Holdings, Li Ruijie	The Company	10,000,000.00	27 February 2013	20 February 2014	No
Powerleader Holdings, Li Ruijie	The Company	90,000,000.00	7 March 2013	20 February 2014	No
Powerleader Holdings, Li Ruijie	The Company	20,000,000.00	15 October 2013	20 May 2014	No
Powerleader Holdings, Li Ruijie	The Company	50,000,000.00	6 March 2013	6 September 2013	Yes
Powerleader Holdings, Li Ruijie	The Company	49,683,016.22	2013-09-09	7 March 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	35,000,000.00	1 April 2013	1 October 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	10,000,000.00	21 February 2013	21 August 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	60,000,000.00	4 January 2013	4 January 2014	Yes
Li Ruijie, Zhang Yunxia	The Company	60,000,000.00	20 August 2013	20 February 2014	No
Li Ruijie, Zhang Yunxia	The Company	40,000,000.00	23 August 2013	23 February 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	2,229,924.74	13 November 2012	1 February 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	24,426,064.62	30 November 2012	28 February 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,148,382.04	7 December 2012	7 March 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	2,198,814.77	10 December 2012	8 March 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	12,047,979.94	11 December 2012	11 November 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	12,957,530.97	24 December 2012	22 March 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,261,907.87	25 February 2013	24 May 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	18,249,364.28	16 April 2013	15 July 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	3,408,325.68	3 May 2013	1 August 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	18,158,670.36	7 June 2013	5 September 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	22,172,130.00	21 August 2013	19 November 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	828,462.60	5 August 2013	1 November 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,596,661.20	12 August 2013	8 November 2013	Yes
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	15,595,995.19	31 October 2013	29 January 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	11,494,333.15	20 November 2013	18 February 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	11,082,957.00	26 November 2013	24 February 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	11,136,292.70	3 December 2013	3 March 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	1,207,186.20	24 December 2013	24 March 2014	No
Powerleader Holdings, Li Ruijie, Powerleader Computing	The Company	629,931.71	27 December 2013	27 March 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	24,273,610.00	9 November 2012	17 January 2014	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,639,885.00	19 November 2012	17 February 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	13,827,153.80	10 December 2012	10 March 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	19,553,743.50	9 January 2013	1 April 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	20,126,054.19	14 January 2013	12 April 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	20,750,403.45	1 February 2013	2 May 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	23,655,880.81	1 February 2013	8 April 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,255,269.04	19 February 2013	20 May 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	19,730,007.04	6 March 2013	4 June 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,484,139.39	12 March 2013	10 June 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,773,219.42	9 April 2013	8 July 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,539,579.05	2 May 2013	30 July 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	14,259,823.87	28 May 2013	26 August 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	9,999,998.60	28 June 2013	1 July 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	23,795,000.00	22 July 2013	27 August 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,397,797.60	12 August 2013	29 October 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,997,126.80	27 August 2013	4 November 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,967,721.60	5 September 2013	4 December 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	21,668,466.80	29 September 2013	8 October 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	13,040,497.20	29 September 2013	28 December 2013	Yes
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	18,304,113.18	8 October 2013	6 January 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	12,382,194.21	28 October 2013	26 January 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	9,703,950.42	3 November 2013	1 February 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	22,115,675.57	30 December 2013	26 March 2014	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	19,380,825.72	30 December 2013	27 March 2014	No
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	200,000,000.00	31 January 2013	30 January 2016	No
Powerleader Holdings, The Company	Powerleader Computing	40,000,000.00	6 September 2013	6 September 2014	No
Total		1,434,009,327.78			

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1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

2. The Company (continued)

(5) Share investment transfer between related parties

Name of related party	Details of related party transaction	This year		Last year	
		Amount	Proportion to total transactions of same nature (%)	Amount	Proportion to total transactions of same nature (%)
Powerleader Holdings	Transfer of share investment	20,000,000.00	100.00	—	—

3. The Group and the Company

Emoluments for key personnel

(1) Emoluments of Directors and Supervisors

The details of emoluments of directors and supervisors of this year were as follows:

Name	Fee of directors and supervisors	Basic salaries and allowances	Retirement benefits scheme contributions	Total
Executive directors	854,018.13	39,830.00	38,628.26	932,476.39
Zhang Yunxia	205,560.00	16,100.00	13,366.83	235,026.83
Ma Zhumao	201,726.00	16,100.00	13,198.93	231,024.93
Dong Weiping	446,732.13	7,630.00	12,062.50	466,424.63
Non-executive directors	192,593.14	—	—	192,593.14
Li Ruijie	70,781.14	—	—	70,781.14
Sun Wei	60,906.00	—	—	60,906.00
Li Donglei	60,906.00	—	—	60,906.00
Independent non-executive directors	182,212.00	—	—	182,212.00
Chan Shiu Yuen	60,400.00	—	—	60,400.00
Jiang Baijun	60,906.00	—	—	60,906.00
Guo Wanda	60,906.00	—	—	60,906.00
Supervisors	411,022.59	14,700.00	37,039.39	462,761.98
Chen Zhenzhi	183,762.57	—	13,434.23	197,196.80
Shu Ling	106,169.50	8,400.00	12,096.93	126,666.43
Li Xiaowei	121,090.52	6,300.00	11,508.23	138,898.75

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

3. *The Group and the Company (continued)*

Emoluments for key personnel (continued)

(1) Emoluments of Directors and Supervisors *(continued)*

The details of emoluments of directors and supervisors of last year were as follows:

Name	Fee of directors and supervisors	Basic salaries and allowances	Retirement benefits scheme contributions	Total
Executive directors	831,352.36	60,432.66	43,684.88	935,469.90
Zhang Yunxia	180,610.00	16,100.00	7,823.48	204,533.48
Ma Zhumao	190,396.00	16,100.00	12,354.48	218,850.48
Dong Weiping	426,681.36	28,232.66	22,275.00	477,189.02
Li Ruijie	33,665.00	—	1,231.92	34,896.92
Non-executive directors	188,047.00	—	416.94	188,463.94
Li Ruijie	50,887.00	—	416.94	51,303.94
Sun Wei	60,960.00	—	—	60,960.00
Li Donglei	60,960.00	—	—	60,960.00
Wang Lixin	15,240.00	—	—	15,240.00
Independent non-executive directors	182,880.00	—	—	182,880.00
Chan Shiu Yuen	60,960.00	—	—	60,960.00
Jiang Baijun	60,960.00	—	—	60,960.00
Guo Wanda	60,960.00	—	—	60,960.00
Supervisors	402,779.50	13,111.00	36,902.04	452,792.54
Chen Zhenzhi	189,120.00	—	12,273.78	201,393.78
Shu Ling	96,426.00	7,000.00	12,354.48	115,780.48
Li Xiaowei	117,233.50	6,111.00	12,273.78	135,618.28

Note 1: Re-designated as non-executive director and vice president on 30 March 2012.

Up to 31 December 2013, no emoluments were paid to directors as an inducement to join or upon joining the Company or as compensation for loss of office.

Remuneration for the directors and supervisors of the Group were determined according to the Salary Management Policies and approved by the remuneration committee of the board.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

3. The Group and the Company (continued)

Emoluments for key personnel (continued)

(2) Five individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2012: four) were directors of the Company. The emoluments of the remaining two (2012: one) individuals were as follows:

Item	This year	Last year
Basic salaries and allowances	667,430.00	478,320.00
Retirement benefits scheme contributions	21,581.93	6,473.90
Total	689,011.93	484,793.90

During the year, no emoluments were paid or payable to the five individuals with highest emoluments as an inducement to join or upon joining the Group or any amount paid or payable as compensation for loss of office or other management positions in the group companies.

Their emoluments were within the following bands (number of person):

Item	This year	Last year
0 to RMB786,230 (0 to HK\$1,000,000)	2	1
Total	2	1

3. Current accounts with related parties

1. The Group

(1) Accounts receivable from related parties

Item	Ending balance		Beginning balance	
	Book amount	Provision for bad debts	Book amount	Provision for bad debts
Joint venture and associate				
Zqgame	39,600.00	—	7,600.00	—
Total	39,600.00	—	7,600.00	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

3. Current accounts with related parties (continued)

1. The Group (continued)

(2) Other receivables from related parties

Item	Ending balance		Beginning balance	
	Book amount	Provision for bad debts	Book amount	Provision for bad debts
Controlling shareholder and ultimate controlling party				
Li Ruijie	264,740.19	—	139,483.81	—
Total	264,740.19	—	139,483.81	—

The amount receivable from Li Ruijie, who is the actual controller, was petty cash to be incurred by him for the Company. The maximum balance outstanding during the year end was RMB264,740.19 (The ending balance).

(3) Receipts in advance from related parties

Item	Ending balance	Beginning balance
Joint venture and associate		
Zqgame	240,330.00	134,993.00
Powerleader Holdings	—	9,280.00
Total	240,330.00	144,273.00

(4) Other payables to related parties

Item	Ending balance	Beginning balance
Other entity under common control of controlling shareholder and ultimate controlling party		
Shenzhen BHP Network Technology Limited	22,418.52	8,144.30
Jointly-controlled entity, joint venture and associate		
Sichuan Baoteng	32,000,000.00	—
Beijing Haiyun Jiexun	6,000,000.00	—
Total	38,022,418.52	8,144.30

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

3. Current accounts with related parties (continued)

2. The Company

(1) Accounts receivable from related parties

Item	Ending balance		Beginning balance	
	Book amount	Provision for bad debts	Book amount	Provision for bad debts
Jointly-controlled entity, joint venture and associate				
Zqgame	39,600.00	—	—	—
Subsidiary				
Baoteng Internet	984,000.00	—	—	—
Baotong Zhiyuan	477,301.76	—	222,443.76	—
Powerleader Communication	354,449.67	—	354,449.67	—
Powerleader Software	302,852.32	—	151,690.11	—
Powerleader Computing	—	—	7,368,076.95	—
Total	2,158,203.75		8,096,660.49	

(2) Other receivables from related parties

Item	Ending balance		Beginning balance	
	Book amount	Provision for bad debts	Book amount	Provision for bad debts
Controlling shareholder and ultimate controlling party				
Li Ruijie	264,740.19	—	139,483.81	—
Subsidiary				
Ex-channel	128,337,433.03	—	114,899,616.61	—
Binhai Powerleader	87,641,402.06	—	63,291,402.06	—
Hong Kong Powerleader	64,394,842.60	—	49,918,500.28	—
Nanjing Powerleader	55,071,942.69	—	26,813,457.27	—
Baotong Zhiyuan	20,853,475.18	—	47,102,236.61	—
Powerleader Communication	3,217,183.65	—	2,308,257.48	—
Powerleader Property	398,012.49	—	360,939.42	—
Total	360,179,031.89		304,833,893.54	

The amount receivable from Li Ruijie, who was the actual controller, was petty cash to be incurred by him for the Company. The maximum balance outstanding during the year end was RMB264,740.19 (The ending balance).



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

3. Current accounts with related parties *(continued)*

2. The Company *(continued)*

(3) Accounts payable to related parties

Item	Ending balance	Beginning balance
Subsidiary		
Powerleader Computing	47,321,915.37	3,406,700.00
Baotong Zhiyuan	30,461,205.14	27,570,464.74
Ex-channel	26,227,480.06	37,124,743.67
Powerleader Software	3,696,560.00	—
Hong Kong Powerleader	876,335.28	—
Total	108,583,495.85	68,101,908.41

(4) Other payable to related parties

Item	Ending balance	Beginning balance
Subsidiary		
Powerleader Computing	61,537,908.50	97,191,985.96
Powerleader Software	19,641,019.89	13,331,872.20
Ex-channel	—	13,280,275.11
Baoteng Internet	525,736.55	6,566,938.51
Nanjing Powerleader	1,997,992.00	1,998,100.00
Baozhongyun	—	722,542.51
Baotong Zhiyuan	—	167,340.00
Jointly-controlled entity, joint venture and associate		
Siehuan Baoteng	32,000,000.00	—
Beijing Haiyun Jiexun	6,000,000.00	—
Total	121,702,656.94	133,259,054.29

VIII. SHARE-BASED PAYMENTS

The Group has no significant share-based payments during the reporting period.

IX. CONTINGENCIES

1. Contingent liabilities relating to provision of financial guarantees

As at 31 December 2013, the Group provided guarantee to outsiders. The details are set out in Note VII. 2. (1.4 and 2.4).

2. Other than as disclosed above, the Group and the Company had no significant contingent liabilities at 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

X. COMMITMENTS

1. The Group

1. Significant commitments

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

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

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

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

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

Period	This year	Last year
Within 1 year (T+1 year)	1,691,600.49	2,567,000.00
1 to 2 years (T+2 years)	286,136.12	938,000.00
2 to 3 years (T+3 years)	139,200.00	—
Total	2,116,936.61	3,505,000.00

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

Period	This year	Last year
Within 1 year (T+1 year)	1,678,260.00	1,821,000.00
1 to 2 years (T+2 years)	1,096,388.00	1,723,000.00
2 to 3 years (T+3 years)	288,134.00	—
3 to 4 years (T+4 years)	—	—
Total	3,062,782.00	3,544,000.00

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

X. COMMITMENTS (continued)

1. The Group (continued)

2. Execution of commitments of prior period

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

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

2. The Company

1. Significant commitments

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

Up to 31 December 2013, the Company has sub-contracting contracts with significant amount contracted but not yet paid totalling RMB43,831,197.00. The details are as follows:

Project	Contract amount (RMB)	Amount paid	Amount recognised as liabilities	Amount unrecognised	Estimated investment period
Shenzhen Guanlan Cloud Computing Data Centre	60,541,815.00	16,710,618.00	9,398,927.75	34,432,269.25	2014
Total	60,541,815.00	16,710,618.00	9,398,927.75	34,432,269.25	

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

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

Period	This year	Last year
Within 1 year (T+1 year)	322,755.75	1,205,852.00
1 to 2 years (T+2 years)	26,400.00	203,049.00
Total	349,155.75	1,408,901.00

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

Period	This year	Last year
Within 1 year (T+1 year)	1,276,620.00	1,821,000.00
1 to 2 years (T+2 years)	761,688.00	1,723,000.00
2 to 3 years (T+3 years)	288,134.00	—
Total	2,326,442.00	3,544,000.00

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

X. COMMITMENTS (continued)

2. The Company (continued)

1. Significant commitments (continued)

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

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

2. Execution of commitments of prior period

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

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

XI. POST-BALANCE SHEET EVENTS

1. Disposal of subsidiary

On 12 February 2014, the Powerleader Holdings and the Company entered into an agreement for the share transfer of Nanjing Powerleader whereby the Company agreed to dispose and Powerleader Holdings agreed to acquire 99% equity holdings in share transfer at a consideration of RMB49,500,000. Upon completion of the share transfer, Nanjing Powerleader will no longer be the subsidiary of the Company.

2. Amount of settlement after the balance sheet date

The Group was not necessary to repay significant liabilities after the balance sheet date.

XII. SEGMENT INFORMATION

The reportable segments are determined based on the structure of its internal organization, management requirements and internal reporting system. The Group has 3 reportable segments. These reportable segments are determined based on the structure of its internal organization, management requirements and internal reporting system reportable segment. The Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance. The main products and services rendered each reportable segment are servers; parts; and softwares and others respectively.

The reportable segment of the Group are as follows:

Operating segment	Principal operations
Cloud Infrastructure as a Service (IaaS)	Provision of equipment such as cloud servers and cloud storage and their related solutions
Cloud Module as a Service (MaaS)	Research and development, design and manufacturing of cloud computing equipment related components, agency distribution of key components of cloud computing equipment and provision of related value added services
Software and Platform as a Service (SaaS and PaaS)	Development of cloud computing software and platforms and provision of related services

Segment reporting information is disclosed in accordance to the accounting policies and measurement standards adopted for reporting to the management by each segment, which are consistent with the accounting policies and measurement basis for preparing financial statements.

Transfer price between each reportable segment is measured as the price selling to third parties, and indirect expenses are allocated to each segment based on revenue.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XII. SEGMENT INFORMATION *(continued)*

Segment results, assets and liabilities

Except for cash and bank balance of the Company, buildings, motor vehicles, and office equipment of fixed assets, investment properties, dividends receivable, long-term equity investments, investment income, loans and interest, shareholder's equity of the Company and administrative expenses, all assets, liabilities and operating results are allocated to each reportable segment.

Operating results of each segment represent total revenue generated by each segment (including revenue from transaction with third parties and intra-segmental transaction) after deducting expenses incurred by each segment; depreciation and amortisation and impairment loss of the assets attributable to each segment; net interest expenses on bank deposits and bank loans directly attributable the segment; net amount of other operating income and expenses.

1. Reportable segment information for 2013

Item	Cloud Infrastructure as a Service (IaaS)	Cloud Module as a Service (MaaS)	Software and Platform as a Service (SaaS and PaaS)	Unallocated	Elimination	Total
Operating revenue	428,271,377.94	1,178,963,709.62	39,533,706.29	—	(86,090,863.52)	1,560,677,930.33
Including: Revenue from external transactions	423,610,598.18	1,123,327,170.43	13,740,161.72	—	—	1,560,677,930.33
Revenue from intra-segment transactions	4,660,779.76	55,636,539.19	25,793,544.57	—	(86,090,863.52)	—
Operating costs	360,005,025.43	1,096,140,995.64	6,109,683.99	—	(85,896,688.76)	1,376,359,016.30
Expenses for the year	35,543,964.76	38,402,798.94	4,956,290.83	66,501,031.21	(725,449.29)	144,678,636.45
Segment operating profit(loss)	36,903,969.99	39,405,491.23	35,460,309.57	(57,294,635.43)	2,193,375.11	56,668,510.47
Total assets	809,453,434.82	917,046,735.30	100,829,906.63	777,983,734.82	(839,885,232.72)	1,765,428,578.85
Including: Significant impairment loss of individual assets	—	—	—	—	—	—
Total liabilities	382,413,537.41	479,760,425.57	30,990,714.25	672,984,356.55	(548,408,444.73)	1,017,740,589.05
Supplementary information	—	—	—	—	—	—
Capital expenditure	39,090,240.54	409,549.11	14,297,006.27	28,886,879.94	—	82,683,675.86
Impairment loss recognised in the period	(429,271.13)	5,577,087.67	181,137.04	—	—	5,328,953.58
Including: Impairment loss of goodwill	—	—	—	—	—	—
Depreciation and amortisation	9,671,831.71	4,445,970.58	2,966,701.07	9,360,063.56	—	26,444,566.92
Non-cash expenses other than impairment loss, depreciation, amortisation	3,724,673.02	5,463,961.50	1,718,021.82	—	—	10,906,656.34

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XII. SEGMENT INFORMATION (continued)

Segment results, assets and liabilities (continued)

2. Reportable segment information for 2012

Item	Cloud Infrastructure as a Service (IaaS)	Cloud Module as a Service (MaaS)	Software and Platform as a Service (SaaS and PaaS)	Unallocated	Elimination	Total
Operating revenue	384,405,322.61	1,405,406,390.37	30,114,150.75	—	(69,153,289.04)	1,750,772,574.69
Including: Revenue from external transactions	369,355,402.40	1,376,248,465.98	5,168,706.31	—	—	1,750,772,574.69
Revenue from intra-segment transactions	15,049,920.21	29,157,924.39	24,945,444.44	—	(69,153,289.04)	—
Operating costs	310,245,442.27	1,283,952,643.46	4,958,144.48	—	(69,161,107.04)	1,529,995,123.47
Expenses for the year	34,967,657.99	40,275,030.39	6,078,566.41	69,887,739.64	100,891.18	151,309,885.61
Segment operating profit (loss)	36,957,035.74	75,638,205.46	26,741,984.78	5,835,559.78	(74,325,874.77)	70,846,910.99
Total assets	646,762,011.26	907,897,641.87	57,515,603.24	685,699,887.44	(835,855,307.11)	1,461,978,489.70
Including: Significant impairment loss of individual assets	—	—	—	—	—	—
Total liabilities	341,005,557.87	511,038,633.89	17,303,696.00	448,268,962.49	(561,088,591.58)	755,928,258.67
Supplementary information						
Capital expenditure	9,038,367.76	1,726,649.54	6,721,802.62	9,683,203.81	—	27,170,023.73
Impairment loss recognised in the period	5,092,991.42	5,932,480.00	(11,670.71)	—	—	11,013,800.71
Including: Impairment loss of goodwill	—	—	—	—	—	—
Depreciation and amortisation	9,594,014.81	4,400,211.51	960,693.74	12,318,776.49	—	27,273,696.55
Non-cash expenses other than impairment loss, depreciation, amortisation	3,432,734.99	1,611,237.34	1,900,204.00	—	—	6,944,176.33

The Group's revenue from external customers domestically and in foreign countries or geographical areas, and the total noncurrent assets other than financial assets and deferred tax assets located domestically and in foreign countries or geographical areas are as follows:

Revenue from external transaction	This year	Last year
PRC (excluding Hong Kong)	1,088,437,693.00	1,303,096,043.04
Hong Kong	289,790,689.03	391,783,505.72
Other overseas regions	182,449,548.30	55,893,025.93
Total	1,560,677,930.33	1,750,772,574.69
Total non-current assets	This year	Last year
PRC (excluding Hong Kong)	580,586,097.78	479,180,939.29
Hong Kong	1,073,252.70	235,911.99
Other overseas regions	—	—
Total	581,659,350.48	479,416,851.28

The Group has no significant reliance on the major customers in 2013.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XIII FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Major financial instruments of the Group include loans, receivables, payables, financial assets at fair value through profit or loss held-for-trading, financial liabilities at fair value through profit or loss held-for-trading, etc. Detailed descriptions of these financial instruments are set out in Note VI. Below are 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 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, in order to maximise the benefits of shareholders and other stakeholders. Based on such objective in 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

Foreign exchange risk represents risks of loss incurred as a result of changes in exchange rate. 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 HK\$ and US\$, all the business activities of the remaining principal operations of the Group are settled with RMB. As at 31 December 2013, except for the US\$ balances in assets and liabilities, odd monies in HK\$, all the balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities in US\$ balances may affect the operating results of the Group.

Item	Ending balance		Total
	USD	HKD	
Cash and bank balances — (Note VI.1)	86,000,855.58	1,225,087.49	87,225,943.07
Financial assets at fair value through profit or loss (Note VI.2)	362,198.90	—	362,198.90
Accounts receivable — (Note VI.4)	271,558,057.72	—	271,558,057.72
Prepayments — (Note VI.5)	4,136,028.54	—	4,136,028.54
Other receivables — (Note VI.6)	89,128,437.60	277,106.03	89,405,543.63
Accounts payable — (Note VI.19)	137,965,492.31	—	137,965,492.31
Receipts in advance — (Note VI.20)	3,028,005.57	—	3,028,005.57
Short-term loans — (Note VI.18)	292,801,859.89	—	292,801,859.89
Total	884,980,936.11	1,502,193.52	886,483,129.63

Item	Beginning balance		Total
	USD	HKD	
Cash and bank balances — (Note VI.1)	67,344,636.89	965,121.40	68,309,758.29
Financial assets at fair value through profit or loss (Note VI.2)	178,693.25	—	178,693.25
Notes receivable — (Note VI.3)	9,517,670.73	—	9,517,670.73
Accounts receivable — (Note VI.4)	290,561,013.43	—	290,561,013.43
Prepayments — (Note VI.5)	4,359,957.50	—	4,359,957.50
Other receivables — (Note VI.6)	100,875,399.98	310,766.59	101,186,166.57
Accounts payable — (Note VI.19)	115,094,561.13	—	115,094,561.13
Receipts in advance — (Note VI.20)	11,042,578.28	—	11,042,578.28
Short-term loans — (Note VI.18)	287,180,870.94	—	287,081,422.04
Total	886,155,382.13	1,275,887.99	887,431,270.12

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XIII FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

1. Objective and policies of risk management *(continued)*

(1) Market risks *(continued)*

1) Foreign exchange risk *(continued)*

The Group closely monitors changes in foreign exchange rates as to their effects to the Group's exposure in foreign exchange risk.

For foreign exchange risk, the Group has always placed its concern on the research of foreign exchange risk management policies and strategies. In order to avoid foreign currency risk related to US\$ loans and interest expenses, the Group has entered into certain forward exchange contracts with banks. The fair value of the forward exchange contracts recognised as derivative financial instruments as at 31 December 2013 was RMB362,198.90. The changes in the fair value of derivative financial instruments is recognised in profit and loss, see Note VI.43.

2) Interest rate risk

The Group's interest rate risk was raised from interest bearing bank loans. Financial liabilities at floating rates expose the Group to cash flow interest rate risk. Financial liabilities at fixed rates expose the Group to fair value interest rate risk. The Group determined the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2013, the Group's interest bearing debts were mainly RMB-denominated and US\$-denominated with floating rates, totalling amounting to RMB752,801,859.89, of which RMB-denominated floating rates loans were RMB460,000,000.00; US\$-denominated floating rates loans were RMB292,801,859.89.

The Group's fair value interest rate risk of financial instruments resulted in the changes in interest rates was mainly associated with fixed-rate bank loans. For these fixed-rate bank loans, the Group's policy is to maintain these loans in floating rates.

The Group's cash flow interest rate risk of financial instruments resulted in the changes in interest rates was mainly associated with floating-rate bank loans. The Group's policy is to maintain these loans in floating rates, so as to eliminate fair value risks arising from changes in interest rate.

3) Price risk

As the Group sold computers and servers products at market prices, it is exposed to market price fluctuations.

(2) Credit risk

On 31 December 2013, the most significant credit risk exposure that might incur financial losses on the Group was mainly attributable to a contractual counterparty's failure to perform its obligations, the effects of which could lead to losses in financial assets of the Group and financial guarantee undertaken by the Group, the details are set out as follows:

The carrying amount of financial assets recognised in the consolidated balance sheet: For the financial instruments carried at fair value, the carrying amount reflects the risk exposure; however, such amount does not represent the maximum credit exposure which changes in line with future changes in fair value.

In order to mitigate credit risk, the Group established a committee to be responsible for determining credit limits, approving credit applications and carrying out other monitoring procedures to ensure necessary actions are taken to collect overdue debts. Besides, the Group reassesses the collectability of each amount receivable on an individual basis at each balance sheet date, in order to ensure sufficient provision is allocated for amounts that are not recoverable. As such, the management of the Group believes the credit risk assumed by the Group has been significantly reduced.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XIII FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

1. Objective and policies of risk management *(continued)*

(2) Credit risk *(continued)*

The Group places its bank balances and cash in banks with relatively higher credit ratings; therefore, the credit risk with respect to liquid funds is low.

The Group adopted necessary policies to ensure all the sales customers have good credit records. Except for the top 5 accounts receivable, the Group has no other significant concentration risk.

The aggregate amount of the top 5 accounts receivable were RMB149,930,813.73.

(3) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Group's liquidity management is to ensure adequate liquidity to pay debts before expiry, thus avoiding unacceptable loss or damage to the reputation of the Group. Analysis on liability structure and maturity was carried out on a regular basis by the Group to ensure adequate liquidity. The management of the Group monitors the utilisation of bank loans and makes sure the related borrowing agreements are complied with. Meanwhile, in order to control liquidity risk, the Group held negotiation with financial institutions for enough banking facilities and to reduce the liquidity risk.

The Group deemed bank loans as a major source of funds. At 31 December 2013, the Group had unutilised bank loan facilities of RMB502,098,927.73. (31 December 2012: RMB550,764,000.00), of which unutilised short-term bank loan facilities RMB502,098,927.73 (31 December 2012: RMB550,764,000.00).

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted remaining contractual obligations:

This year

Item	Within 1 year	1 to 2 years	2 to 5 years	After 5 years	Total
Financial assets					
Cash and bank balances	370,444,415.57	—	—	—	370,444,415.57
Financial assets at fair value through profit and loss	362,198.90	—	—	—	362,198.90
Notes receivable	19,850,837.81	—	—	—	19,850,837.81
Accounts receivable	395,920,420.06	—	—	—	395,920,420.06
Other receivables	173,759,856.44	—	—	—	173,759,856.44
Prepayments	32,346,250.20	—	—	—	32,346,250.20
Total of financial assets	992,683,978.98	—	—	—	992,683,978.98
Financial liabilities					
Accounts payable	165,464,646.87	—	—	—	165,464,646.87
Receipts in advance	18,681,340.48	—	—	—	18,681,340.48
Other payables	47,496,439.82	—	—	—	47,496,439.82
Interest payables	394,625.00	—	—	—	394,625.00
Employee emolument payables	5,400,368.45	—	—	—	5,400,368.45
Loans	612,801,859.89	140,000,000.00	—	—	752,801,859.89
Total of financial liabilities	850,239,280.51	140,000,000.00	—	—	990,239,280.51

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XIII FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

1. Objective and policies of risk management *(continued)*

(3) *Liquidity risk (continued)*

Last year

Item	Within 1 year	1 to 2 years	2 to 5 years	After 5 years	Total
Financial assets					
Cash and bank balances	241,923,342.50	—	—	—	241,923,342.50
Financial assets at fair value through profit and loss	178,693.25	—	—	—	178,693.25
Notes receivable	28,224,142.28	—	—	—	28,224,142.28
Accounts receivable	360,538,998.63	—	—	—	360,538,998.63
Other receivables	152,531,800.66	—	—	—	152,531,800.66
Prepayments	24,063,804.96	—	—	—	24,063,804.96
Total of financial assets	807,460,782.28	—	—	—	807,460,782.28
Financial liabilities					
Accounts payable	148,363,192.93	—	—	—	148,363,192.93
Receipts in advance	16,300,539.94	—	—	—	16,300,539.94
Other payables	10,068,483.22	—	—	—	10,068,483.22
Employee emolument payables	3,669,412.35	—	—	—	3,669,412.35
Loans	562,895,108.87	—	—	—	562,895,108.87
Total of financial liabilities	741,296,737.31	—	—	—	741,296,737.31

2. Fair value

(1) The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments;

The fair value of derivatives instruments (foreign currency forward contract) is calculated using quoted exchange rates and rate of return at the reported interest rates.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XIII FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

2. Fair value *(continued)*

(2) Fair value measurement recognised in the financial statements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Item	2013			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets at fair value through profit or loss	362,198.90	—	—	362,198.90

Item	2012			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets at fair value through profit or loss	178,693.25	—	—	178,693.25

(3) The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements not materially different from their fair values.

3. Sensitivity analysis

The Group adopts sensitivity analysis techniques to analyse the possible effects of rational and probable changes in risk variables to profit and loss for the current period or to the beneficial interests. Since risk variables seldom change on a stand-alone basis, while the correlation between variables has significant influence to the ultimate amount of change effected by the change in a single risk variable; therefore, the below analysis is based on the assumption that the changes in each variable occurred separately.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XIII FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3. Sensitivity analysis (continued)

(1) Sensitivity analysis of foreign exchange risk

Assumption of foreign exchange risk sensitivity analysis: all overseas operating net investment hedging and cash flow hedging are highly efficient.

Based on the above basis, holding all other variables constant the effects of probable and rational changes in exchange rate to the net profit for the year and shareholder's equity are set out below:

Item	Changes in exchange rate	This year		Last year	
		Effect to net profit	Effect to shareholder's equity	Effect to net profit	Effect to shareholder's equity
All foreign currency	To RMB increase 5%	926,508.42	926,508.42	1,142,902.78	1,142,902.78
All foreign currency	To RMB decrease 5%	(926,508.42)	(926,508.42)	(1,142,902.78)	(1,142,902.78)

(2) Sensitivity analysis of interest rate risk

Sensitivity analysis of interest rate risk is based on the below assumptions:

Changes in market rate affects the interest income or expense of floating-rate financial instruments;

For fixed rate financial instruments measured at fair value, the change in market 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 Discounted Cash Flow with the market rate at the balance sheet date.

Based on the above assumptions, holding all other variables constant, the effect of possible occurrence of rational changes in interest rate to the net profit for the year and shareholder's equity are set out below:

Item	Changes in interest rates	This year		Last year	
		Effect to net profit	Effect to shareholder's equity	Effect to net profit	Effect to shareholder's equity
Floating rate loans	Increase by 1%	(6,312,129.09)	(6,312,129.09)	(6,628,617.17)	(6,628,617.17)
Floating rate loans	Decrease in 1%	6,312,129.09	6,312,129.09	6,628,617.17	6,628,617.17

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XIV OTHER SIGNIFICANT EVENTS

1. There were no non-monetary exchange transactions during the year (2012: NIL).
2. There were no debts restructuring during the year (2012: NIL).
3. Leasing

(1) Lease of assets under operating leases

Category of assets leased under operating leases	Ending balance	Beginning balance
Buildings	16,838,422.38	24,046,465.67
Servers	1,780,939.73	—
Total	18,619,362.11	24,046,465.67

(2) Minimum lease payments under significant operating leases

As at 31 December 2013 (T), the details payment period of the Group as a lessee, for the minimum lease payments under non-cancellable operating leases in respect of office building and plant are set out in Note X.1(2).

4. Financial assets and financial liabilities denominated in foreign currency

Item	Beginning balance	Gain or loss on fair value changes for the year	Accumulated fair value changes included in equity	Provision for impairment losses	Ending balance
Financial assets					
Financial assets at fair value through profit and loss	178,693.25	183,505.65	—	—	362,198.90
Accounts receivable	290,561,013.43	—	—	—	271,558,057.72
Notes receivable	9,517,670.73	—	—	—	4,136,028.44
Prepayments	4,359,957.50	—	—	—	89,405,554.22
Other receivables	101,186,166.57	—	—	—	
Sub-total of financial assets	405,803,501.48	183,505.65	—	—	365,461,839.28
Financial liabilities					
Short-term loans	287,180,870.94	—	—	—	292,801,859.89
Accounts payable	115,094,561.13	—	—	—	137,965,492.31
Receipts in advance	11,042,578.28	—	—	—	3,028,005.57
Sub-total financial liabilities	413,318,010.35	—	—	—	433,795,357.77

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

1. Cash and bank balance

Item	Ending balance			Beginning balance		
	Original currency	Exchange rate	Amount in RMB	Original currency	Exchange rate	Amount in RMB
Cash in hand			238,756.63			474,830.71
RMB	238,756.63	1.0000	238,756.63	474,830.71	1.0000	474,830.71
Bank deposits			210,984,938.80			111,388,110.22
RMB	206,264,409.95	1.0000	206,264,409.95	99,019,654.42	1.0000	99,019,654.42
US\$	774,250.66	6.0969	4,720,528.85	1,967,775.96	6.2855	12,368,455.80
Other bank balances and cash			35,038,321.44			46,758,123.71
RMB	9,251,202.19	1.0000	9,251,202.19	20,221,151.02	1.0000	20,221,151.02
US\$	4,229,546.04	6.0969	25,787,119.25	4,221,935.04	6.2855	26,536,972.69
Total			246,262,016.87			158,621,064.64

As at the end of 2013, the restricted bank deposits of the Group were RMB35,038,321.44 (2012: RMB46,758,123.71). It was included in "Other bank balances and cash". It was the guarantee deposits for opening letters of credit.

Restricted bank deposits were as follows:

Nature	Currency	Amount in original currency	Amount in RMB
Guarantee deposit for opening letters of credit	RMB	9,251,202.19	9,251,202.19
Guarantee deposit for opening letters of credit	US\$	4,229,546.04	25,787,119.25
Total			35,038,321.44

2. Notes receivable

(1) Category of notes receivable

Category	Ending balance	Beginning balance
Bank acceptance notes	1,590,178.78	7,053,132.00
Commercial acceptance notes	13,846,449.03	8,199,003.07
Total	15,436,627.81	15,252,135.07

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

2. Notes receivable (continued)

(2) As at end of 2013, the notes receivable that were discounted to other parties for payments and yet to mature were as follows:

Type of note	Drawer	Date of discount	Due date	Amount	Discounted amount
Commercial acceptance notes	ZTE Corporation	18 December 2013	25 February 2014	1,079,040.00	1,061,047.01
Commercial acceptance notes	ZTE Corporation	18 December 2013	26 March 2014	2,215,660.00	2,163,721.24
Commercial acceptance notes	ZTE Corporation	18 December 2013	24 April 2014	4,121,981.97	3,995,471.47
Total				7,416,681.97	7,220,239.72

3. Accounts receivable

Item	Ending balance	Beginning balance
Accounts receivable	91,216,395.65	49,878,921.85
Less: Provision for bad debts	5,367,620.05	6,749,123.25
Net amount	85,848,775.60	43,129,798.60

Most of the domestic sales of the Group are on credit terms with 30 to 90 days credit period.

(1) Aging analysis of accounts receivable

Prior to the acceptance of new customers, the Group applies internal credit assessment policies to assess the credit quality of potential customers and formulates credit limit. Apart from requiring new customers to pay in advance, the Group formulates different credit policies according to different customers. The credit period is generally three months, and can be extended to twelve months for major customers. For the sales, the Group recognizes the accounts receivable and operating revenue at the point of time when the goods are out of the warehouse and are accepted by the customers, and when calculation of the ages of the account begins. Aging analysis of accounts receivable, net of provision for bad debts, presented based on the recognition date is as follows:

Aging	Ending balance	Beginning balance
Within 3 months	73,339,257.53	16,595,196.38
3 months to 1 year	8,735,594.35	17,535,902.71
1 to 2 years	2,496,446.89	7,013,293.45
2 to 3 years	357,192.12	1,985,406.06
3 to 4 years	920,284.71	—
Net amount	85,848,775.60	43,129,798.60

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Accounts receivable (continued)

(2) Risk category of accounts receivable

Category	Ending balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	—	—	—	—
Accounts receivable that are provided for bad debts on portfolio basis	—	—	—	—
Aged group	85,790,972.75	94.05	2,100,400.90	2.45
Related party	2,158,203.75	2.37	—	—
Sub-total	87,949,176.50	96.42	2,100,400.90	2.39
Accounts receivable that are individually insignificant but are individually provided for bad debts	3,267,219.15	3.58	3,267,219.15	100.00
Total	91,216,395.65		5,367,620.05	

Category	Beginning balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable that are individually significant and are provided for bad debts on individual basis	—	—	—	—
Accounts receivable that are provided for bad debts on portfolio basis	—	—	—	—
Aged group	39,033,007.76	78.26	3,999,869.65	10.25
Related party group	8,096,660.49	16.23	—	—
Sub-total	47,129,668.25	94.49	3,999,869.65	8.49
Accounts receivable that are individually insignificant but are individually provided for bad debts	2,749,253.60	5.51	2,749,253.60	100.00
Total	49,878,921.85		6,749,123.25	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

3. Accounts receivable (continued)

(2) Risk category of accounts receivable (continued)

1) Details of accounts receivable that are provided for bad debts by aging analysis

Item	Ending balance			Beginning balance		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 3 months	72,019,421.52	—	—	8,498,535.89	—	—
3 months to 1 year	8,925,389.52	5.00	446,269.48	18,458,844.96	5.00	922,942.25
1 to 2 years	2,836,253.91	20.00	567,250.78	8,766,616.81	20.00	1,753,323.36
2 to 3 years	595,320.20	40.00	238,128.08	3,309,010.10	40.00	1,323,604.04
3 to 4 years	1,414,587.60	60.00	848,752.56	—	60.00	—
Total	85,790,972.75		2,100,400.90	39,033,007.76		3,999,869.65

2) Accounts receivable that are individually significant and provided for bad debts on individual basis at end of year

Name	Book balance	Bad debts amount	Provision proportion (%)	Reason for provision
Kunming Yingzhong Technology Limited	735,770.00	735,770.00	100	Low recoverability
Guangdong Yuankang Softwares Co., Limited	452,460.00	452,460.00	100	Low recoverability
Nanjing Sutian Feihua Electrical Industrial Limited	440,570.00	440,570.00	100	Low recoverability
Zibo Xinhuijie Technology Limited	332,725.00	332,725.00	100	Low recoverability
Shandong Sciwal Information Technology Limited	320,748.00	320,748.00	100	Low recoverability
Baoji Yunyi Network Technology Limited	182,100.00	182,100.00	100	Low recoverability
Beijing Long Speedkey Limited	157,500.00	157,500.00	100	Low recoverability
Shandong University Softwares Limited	98,200.00	98,200.00	100	Low recoverability
Beijing Haitian Network Public Relation Consultant Limited	94,900.00	94,900.00	100	Low recoverability
Beijing Century Hongri Technology Limited	65,680.00	65,680.00	100	Low recoverability
Shanghai Ouwang Network Technology Limited	63,646.00	63,646.00	100	Low recoverability
Shanghai Quanyao Technology Trading	59,900.00	59,900.00	100	Low recoverability
Hunan Sipulin Technology Trading Limited	29,400.00	29,400.00	100	Low recoverability
Beijing Sina Information technology Limited	29,004.00	29,004.00	100	Low recoverability
Bailing Information Technology Limited	29,000.00	29,000.00	100	Low recoverability
Sihua Technology (Shanghai) Limited	28,200.00	28,200.00	100	Low recoverability
Guangzhou Electricity Bureau of Guangdong Electricity Network Company	21,300.00	21,300.00	100	Low recoverability
Others	126,116.15	126,116.15	100	Low recoverability
Total	3,267,219.15	3,267,219.15	—	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Accounts receivable (continued)

(3) There were no accounts receivables from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at end of the year.

(4) *Top five accounts receivable outstanding were as follows:*

Name	Relationships with the Company	Amount	Aged	Proportion to total accounts receivable (%)
The First	Independent third party	12,626,120.00	Within 3 months	13.84
The Second	Independent third party	7,372,450.00	Within 3 months	8.08
		4,415,343.17	3 months to 1 year	4.84
Sub-total of The Second		11,787,793.17		12.92
The Third	Independent third party	5,678,497.47	Within 3 months	6.23
The Fourth	Independent third party	3,751,797.13	Within 3 months	4.11
The Fifth	Independent third party	3,534,740.00	Within 3 months	3.88
Total		37,378,947.77		40.98

(5) *Accounts receivable from related party*

Name	Relationships with the Company	Ending balance			Beginning balance		
		Amount	Proportion to accounts receivable (%)	Provision for bad debts	Amount	Proportion to accounts receivable (%)	Provision for bad debts
Baoteng Internet	Subsidiary	984,000.00	1.08	—	—	—	—
Baotong Zhiyuan Powerleader	Subsidiary	477,301.76	0.52	—	222,443.76	0.45	—
Communication	Subsidiary	354,449.67	0.39	—	354,449.67	0.71	—
Powerleader Software	Subsidiary	302,852.32	0.33	—	151,690.11	0.30	—
Zqgame	Associate	39,600.00	0.04	—	—	—	—
Powerleader Computing	Subsidiary	—	—	—	7,368,076.95	14.77	—
Total		2,158,203.75	2.36	—	8,096,660.49	16.23	—

4. Prepayments

(1) *Aging of the prepayments*

Item	Ending balance		Beginning balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	1,685,000.00	100.00	—	—
Total	1,685,000.00			

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

4. Prepayments (continued)

(2) There was no prepayments from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at end of year.

5. Dividend receivable

Item	Beginning balance	Increase	Decrease	Ending balance	Reason for not recovered	Whether impaired
Dividend receivable with aged within 1 year	—	—	—	—	—	—
Including:						
Dividend receivable with aged over 1 year	—	—	—	—	—	—
Including: Powerleader Computing	96,000,000.00		40,000,000.00	56,000,000.00	Cash flow	No
Hong Kong Powerleader	24,000,000.00		—	24,000,000.00	Cash flow	No
Baotong Zhiyuan	10,000,000.00		10,000,000.00	—	Cash flow	No
Powerleader Software	10,000,000.00		10,000,000.00	—	Cash flow	No
Total	140,000,000.00		60,000,000.00	80,000,000.00		

6. Other receivables

Item	Ending balance	Beginning balance
Other receivables	447,598,978.34	355,124,932.49
Less: Provision for bad debts	298,534.19	3,048,514.58
Net amount	447,300,444.15	352,076,417.91

(1) Aging analysis of other receivables

Aged	Ending balance	Beginning balance
Within 3 months	244,025,924.11	196,187,527.38
3 months to 1 year	52,879,557.77	76,445,171.89
1 to 2 years	80,959,212.30	77,419,221.84
2 to 3 years	67,545,282.00	48,265.70
3 to 4 years	28,100.00	134,231.10
4 to 5 years	22,367.97	2,000.00
Over 5 years	1,840,000.00	1,840,000.00
Net amount	447,300,444.15	352,076,417.91

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

6. Other receivables (continued)

(2) Risk category of other receivables

Category	Ending balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis				
Other receivables that are provided for bad debts on portfolio basis				
Aged group	62,169,956.22	13.89	29,315.91	0.05
Related party group	360,179,031.89	80.47	—	—
Collateral group	11,090,024.01	2.48	—	—
Long-term strategic co-operating units	14,159,966.22	3.16	269,218.28	1.90
Sub-total	447,598,978.34	100.00	298,534.19	0.07
Other receivables that are individually insignificant but are individually provided for bad debts	—	—	—	—
Total	447,598,978.34		298,534.19	

Category	Beginning balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant and are provided for bad debts on individual basis	—	—	—	—
Other receivables that are provided for bad debts on portfolio basis				
Aged group	18,902,885.05	5.32	—	—
Related party group	304,833,893.54	85.84	—	—
Collateral group	5,299,258.76	1.49	—	—
Long-term strategic co-operating units	23,040,380.56	6.49	—	—
Sub-total	352,076,417.91	99.14	—	—
Other receivables that are individually insignificant but are individually provided for bad debts	3,048,514.58	0.86	3,048,514.58	100.00
Total	355,124,932.49		3,048,514.58	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

6. Other receivables (continued)

(2) Risk category of other receivables (continued)

1) Details of other receivable that are provided for bad debts by aging analysis

Item	Ending balance			Beginning balance		
	Amount	Proportion (%)	Provision for bad debts	Amount	Proportion (%)	Provision for bad debts
Within 3 months	61,970,447.89	—	—	18,902,885.05	—	—
3 months to 1 year	70,571.68	5	3,528.58	—	5	—
1 to 2 years	128,936.65	20	25,787.33	—	20	—
Total	62,169,956.22		29,315.91	18,902,885.05		

(3) Other receivables from shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at end of year.

(4) The top five other receivables outstanding are as follows:

Name	Relationships with the Company	Amount	Aged	Proportion to total other receivables (%)	Nature
Ex-channel	Subsidiary	128,337,433.03	Within 3 months	28.67	Current account
Binhai Powerleader	Subsidiary	20,830,000.00	Within 3 months	4.65	Current account
		6,620,000.00	3 months to 1 year	1.48	Current account
		29,250,000.00	1 to 2 years	6.54	Current account
		30,941,402.06	2 to 3 years	6.91	Current account
Sub-total of Binhai Powerleader		87,641,402.06		19.58	
Hong Kong Powerleader	Subsidiary	507,802.10	Within 3 months	0.12	Current account
		14,786,605.77	3 months to 1 year	3.30	Current account
		24,351,540.01	1 to 2 years	5.44	Current account
		24,748,894.72	2 to 3 years	5.53	Current account
Sub-total of Hong Kong Powerleader		64,394,842.60		14.39	
Shenzhen Yingjiexun Industrial Development Limited	Independent third party	57,239,923.23	Within 3 months	12.79	Current account
Nanjing Powerleader	Subsidiary	27,410,000.00	Within 3 months	6.12	Current account
		1,855,506.66	3 months to 1 year	0.41	Current account
		14,125,130.77	1 to 2 years	3.16	Current account
		11,681,305.26	2 to 3 years	2.61	Current account
Sub-total of Nanjing Powerleader		55,071,942.69		12.30	
Total		392,685,543.61		87.73	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

6. Other receivables (continued)

(5) Other receivables from related parties

Name	Relationships with the Company	Ending balance			Beginning balance		
		Amount	Proportion to total other receivables (%)	Provision for bad debts	Amount	Proportion to total other receivables (%)	Provision for bad debts
Ex-channel	Subsidiary	128,337,433.03	28.67	—	114,899,616.61	32.36	—
Binhai Powerleader	Subsidiary	87,641,402.06	19.58	—	63,291,402.06	17.82	—
Hong Kong Powerleader	Subsidiary	64,394,842.60	14.39	—	49,918,500.28	14.06	—
Nanjing Powerleader	Subsidiary	55,071,942.69	12.30	—	26,813,457.27	7.55	—
Baotong Zhiyuan	Subsidiary	20,853,475.18	4.66	—	47,102,236.61	13.26	—
Powerleader Communication	Subsidiary	3,217,183.65	0.72	—	2,308,257.48	0.65	—
Powerleader Property	Subsidiary	398,012.49	0.09	—	360,939.42	0.10	—
Li Ruijie	Actual controlling party	264,740.19	0.06	—	139,483.81	0.04	—
Total		360,179,031.89	80.47		304,833,893.54	85.84	

(6) Other receivables comprised the following balances in foreign currencies

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	23,212,648.50	6.0969	141,525,196.63	20,712,262.95	6.2855	130,186,928.77
Total			141,525,196.63			130,186,928.77

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

7. Inventories

(1) Categories of inventories

Item	Ending balance		
	Book balance	Provision for inventories	Carrying value
Material in transits	1,043,580.40	—	1,043,580.40
Raw materials	45,397,803.83	182,039.63	45,215,764.20
Work-in-progress	3,848,553.25	—	3,848,553.25
Finished goods	902,415.96	—	902,415.96
Goods in transits	7,360,385.07	—	7,360,385.07
Sub-contracting material	60,366.81	—	60,366.81
Total	58,613,105.32	182,039.63	58,431,065.69

Item	Beginning balance		
	Book balance	Provision for inventories	Carrying value
Material in transits	4,200.00	—	4,200.00
Raw materials	13,803,072.46	284,257.37	13,518,815.09
Work-in-progress	162,123.46	—	162,123.46
Finished goods	110,253.71	—	110,253.71
Goods in transits	1,041,387.50	—	1,041,387.50
Sub-contracting material	—	—	—
Total	15,121,037.13	284,257.37	14,836,779.76

(2) Provision for inventories

Item	Beginning balance	Increase	Decrease		Ending balance
			Reversal	Other transfer	
Raw materials	284,257.37	176,810.12	—	279,027.86	182,039.63
Total	284,257.37	176,810.12	—	279,027.86	182,039.63

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

8. Long-term equity investments

(1) The category of long-term equity investments

Item	Ending balance	Beginning balance
Long-term equity investments accounted for using cost method	162,578,750.00	162,578,750.00
Long-term equity investments accounted for using equity method	204,433,275.75	136,667,011.01
Total of long-term equity investments	367,012,025.75	299,245,761.01
Less: Provision for impairment loss of long-term equity investments		
Net carrying value	367,012,025.75	299,245,761.01

(2) Analysis of long-term equity investments

Item	Ending balance	Beginning balance
Listed	144,704,848.48	136,667,011.01
PRC (Other than Hong Kong)	144,704,848.48	136,667,011.01
Hog Kong	—	—
Other regions	—	—
Sub-total	144,704,848.48	136,667,011.01
Unlisted	222,307,177.27	162,578,750.00
Total	367,012,025.75	299,245,761.01

As at end of the year, the market value of listed investments was RMB893,856,600.00.

As at 31 December 2013, the fair value of the listed long-term equity investments was RMB893,856,600.00.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

8. Long-term equity investments (continued)

(3) Long-term equity investments accounted for using cost method and equity method

Name of investee	Proportion of shareholdings (%)	Proportion of voting rights (%)	Investment cost	Beginning balance	Increase	Decrease	Ending balance	Cash dividend received for the year
Accounted for using cost method								
Powerleader								
Communication	90.00	90.00	900,000.00	900,000.00	—	—	900,000.00	—
Baoteng Internet	100.00	100.00	9,500,000.00	9,500,000.00	—	—	9,500,000.00	—
Powerleader Computing	100.00	100.00	12,750,000.00	12,750,000.00	—	—	12,750,000.00	—
Hong Kong Powerleader	100.00	100.00	67,353,750.00	67,353,750.00	—	—	67,353,750.00	—
Powerleader Property	99.00	99.00	495,000.00	495,000.00	—	—	495,000.00	—
Batong Zhiyuan	100.00	100.00	10,080,000.00	10,080,000.00	—	—	10,080,000.00	—
Powerleader Software	100.00	100.00	10,200,000.00	10,200,000.00	—	—	10,200,000.00	—
Nanjing Powerleader	99.00	99.00	49,500,000.00	29,700,000.00	19,800,000.00	—	49,500,000.00	—
Baozhongyun	100.00	100.00	1,800,000.00	1,800,000.00	—	1,800,000.00	—	—
Baodeyun	100.00	100.00	1,800,000.00	1,800,000.00	—	—	1,800,000.00	—
Shen-Viet Joint Investment	18.00	18.00	18,000,000.00	18,000,000.00	—	18,000,000.00	—	—
Sub-total			182,378,750.0	162,578,750.00	19,800,000.00	19,800,000.00	162,578,750.00	—
Accounted for using equity method								
Zqgame	15.30	15.30	3,000,000.00	136,667,011.01	9,231,237.47	1,193,400.00	144,704,848.48	1,193,400.00
Beijing Haiyun Jiexun Technology Limited	25.00	33.33	15,000,000.00	—	16,541,031.28	—	16,541,031.28	—
Sichuan Baoteng	49.00	66.67	42,000,000.00	—	43,187,395.99	—	43,187,395.99	—
Sub-total			60,000,000.00	136,667,011.01	62,959,664.74	1,193,400.00	204,433,275.75	1,193,400.00
Total			242,378,750.00	299,245,761.01	88,759,664.74	20,993,400.00	367,012,025.75	1,193,400.00

(4) Investments in jointly controlled entities and associates

Name of investee	Business structure	Place of registration	Business nature	Legal representative	Registered capital	Organisation code
Zqgame	Joint stock limited	Shenjing	Internet	Li Ruijie	260,000,000.00	75252459-5
Beijing Haiyun Jiexun Technology Limited	Incorporated with limited liabilities	Beijing	Provision of technology development services	Li Hua	6,666,666.67	556899496
Sichuan Baoteng	Incorporated with limited liabilities	Chengdu	Development and sales of softwares	Zhang Kan	1,960,800.00	07769725-6

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

8. Long-term equity investments (continued)

(4) Investments in jointly controlled entities and associates (continued)

Name of investee	Proportion of shareholdings (%)	Proportion of voting rights (%)	Ending balance of total assets	Ending balance of total liabilities	Ending balance of total net assets	Total revenue of the year	Net profit for the year
Zqgame	15.30	15.30	1,404,836,138.91	401,457,488.86	1,003,378,650.05	324,475,994.23	59,545,896.61
Beijing Haiyun Jiexun Technology Limited	25.00	33.33	12,957,428.22	419,335.33	12,538,092.89	5,252,634.40	(1,169,208.19)
Sichuan Baoteng	49.00	66.67	64,362,309.42	18,369,879.96	45,992,429.46	19,081,607.00	2,423,257.13

9. Investment properties

(1) Investment properties measured using cost model

Item	Beginning balance	Increase	Decrease	Ending balance
Cost	—	18,926,166.38	—	18,926,166.38
Buildings	—	18,926,166.38	—	18,926,166.38
Land use rights	—	—	—	—
Accumulated depreciation and amortization	—	2,087,744.00	—	2,087,744.00
Buildings	—	2,087,744.00	—	2,087,744.00
Land use rights	—	—	—	—
Book balance	—	—	—	16,838,422.38
Buildings	—	—	—	16,838,422.38
Land use rights	—	—	—	—
Provision for impairment	—	—	—	—
Buildings	—	—	—	—
Land use rights	—	—	—	—
Carrying value	—	—	—	16,838,422.38
Buildings	—	—	—	16,838,422.38
Land use rights	—	—	—	—

(2) Depreciation and amortization of investment properties recognised in income statement for the year was RMB363,382.41 (Last year: NIL).

(3) The investment properties were situated in the PRC and held under medium lease terms (more than 10 years but less than 50 years).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

9. Investment properties (continued)

(4) Investment properties with restrictions on legal titles or using rights

Item	Area of the whole item	Area of investment property	Ending balance of cost	Ending balance of carrying value	Nature of the pledge
Plant	23,558.42	8,096.50	17,216,721.28	15,317,546.04	Mutual guaranteed loan mortgage
Research and development centre	8,607.82	803.90	1,709,445.10	1,520,876.34	Mutual guaranteed loan mortgage
Total	32,166.24	8,900.40	18,926,166.38	16,838,422.38	

10. Fixed assets

(1) Breakdown of fixed assets

Item	Beginning balance	Increase	Decrease	Ending balance
Cost	122,346,885.60	1,639,324.40	20,002,579.01	103,983,630.99
Buildings	90,817,152.71	453,401.00	18,926,166.38	72,344,387.33
Plant and machinery	9,950,245.01	—	3,780.00	9,946,465.01
Motor vehicle	9,650,537.82	—	831,499.00	8,819,038.82
Office equipment	11,472,551.05	1,185,923.40	241,133.63	12,417,340.82
Other equipment	456,399.01	—	—	456,399.01
Accumulated depreciation	29,823,853.86	5,367,549.78	3,046,944.64	32,144,459.00
Buildings	11,400,583.55	2,714,993.52	2,087,744.00	12,027,833.07
Plant and machinery	5,582,930.82	635,346.18	3,591.00	6,214,686.00
Motor vehicle	4,833,375.42	670,969.37	738,474.02	4,765,870.77
Office equipment	7,873,220.82	1,259,708.11	217,135.62	8,915,793.31
Other equipment	133,743.25	86,532.60	—	220,275.85
Provision for impairment				
Buildings				
Plant and machinery				
Motor vehicle				
Office equipment				
Other equipment				
Carrying value	92,523,031.74			71,839,171.99
Buildings	79,416,569.16			60,316,554.26
Plant and machinery	4,367,314.19			3,731,779.01
Motor vehicle	4,817,162.40			4,053,168.05
Office equipment	3,599,330.23			3,501,547.51
Other equipment	322,655.76			236,123.16

(2) Depreciation and amortization of fixed assets recognised in income statement for this year was RMB5,165,496.54 (Last year: RMB4,750,090.28).

(3) No construction in progress was transferred to the fixed assets in the year.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

10. Fixed assets (continued)

- (4) Loss on disposal of fixed assets recognised in income statement for this year was RMB77,287.99.
- (5) The buildings were situated in the PRC and held under medium lease terms (more than 10 years but less than 50 years).

(6) Pledge of fixed assets

On 31 January 2013, the Company and Shenzhen of China Construction Bank entered into guaranteed loan agreement. The principal of the loan was RMB200 million. The loan period was from 31 January 2013 to 30 January 2016. The proceeds from the loan was applied to daily operating purposes. It was pledged by the Company's plant and research and development centre located at Powerleader Technology Park of Guanlan Hi-Tech Park of Longhua New District, Shenzhen. The total area of the plant and research and development centre under pledge was 32,166.24 square meter. Their cost was RMB68,399,578.69; accumulated depreciation was RMB7,545,152.43.

(7) Fixed assets with pending certificates of ownership

As the house of the Company located of at Futian District (Cost RMB1.8699 million; net carrying: RMB1.7353 million) was belonged to the government economic housing, the property certificate is held by the Municipal Government of Futian District. The property certificate of the house cannot be obtained.

As the property developer of the house of the Company located at Xian of Sanxi (Cost: RMB0.7365 million; Net carrying value: RMB0.6345 million) has not passed the examination of fire prevention facilities, the property certificate of the house cannot be obtained.

11. Construction in progress

(1) Breakdown of construction in progress

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Net carrying value	Book balance	Provision for impairment	Net carrying value
Shenzhen (Guanlan) Cloud computing Data Centre	22,662,263.78	—	22,662,263.78	—	—	—
Total	22,662,263.78	—	22,662,263.78	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

11. Construction in progress (continued)

(2) Movements of significant construction in progress projects

Name of project	Beginning balance	Increase	Decrease		Ending balance
			Transfer to fixed assets	Other decrease	
Shenzhen (Guanlan) Cloud computing Data Centre	—	22,662,263.78	—	—	22,662,263.78
Total	—	22,662,263.78	—	—	22,662,263.78

Name of project	Budget RMB' million	Proportion of expenditure injected to budget (%)	Progress (%)	Accumulated capitalised interest	Including: Interest capitalised for the year	Interest capitalisation rate for the year (%)	Source of funds
Shenzhen (Guanlan) Cloud computing Data Centre	84	26.98	26.98	—	—	—	Own funds
Total	84						

(3) The progress is estimated based on the volumn of construction work.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

12. Intangible assets

(1) Breakdown of intangible assets

Item	Beginning balance	Increase	Decrease	Ending balance
Cost	69,073,102.03	—	—	69,073,102.03
Land use rights	7,070,345.00	—	—	7,070,345.00
Computer softwares	995,171.33	—	—	995,171.33
Research and development softwares	61,007,585.70	—	—	61,007,585.70
Accumulated amortisation	55,278,446.84	6,122,119.61	—	61,400,566.45
Land use rights	586,993.09	123,138.18	—	710,131.27
Computer softwares	495,312.42	175,652.08	—	670,964.50
Research and development softwares	54,196,141.33	5,823,329.35	—	60,019,470.68
Net carrying amount	13,794,655.19	—	—	7,672,535.58
Land use rights	6,483,351.91	—	—	6,360,213.73
Computer softwares	499,858.91	—	—	324,206.83
Research and development softwares	6,811,444.37	—	—	988,115.02
Provision for impairment	—	—	—	—
Land use rights	—	—	—	—
Computer softwares	—	—	—	—
Research and development softwares	—	—	—	—
Net carrying value	13,794,655.19	—	—	7,672,535.58
Land use rights	6,483,351.91	—	—	6,360,213.73
Computer softwares	499,858.91	—	—	324,206.83
Research and development softwares	6,811,444.37	—	—	988,115.02

(2) The land of the land use rights were situated in the PRC and held under medium lease terms (more than 10 years but less than 50 years).

(3) Depreciation and amortization of intangible assets recognised in income statement for this year was RMB6,122,119.61 (Last year: RMB7,349,066.69).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

13. Development expenditures

(1) Breakdown of research and development expenditures

Item	Beginning balance	Increase	Decrease		Ending balance
			Recognised in profit or loss for this year	Recognised as intangible assets	
High-performance fault-tolerant quadruple server	5,963,621.27	4,585,291.76	—	—	10,548,913.03
Total	5,963,621.27	4,585,291.76	—	—	10,548,913.03

(2) The development expenditures incurred for this year represents 93.81% of the total expenditure of the research and development projects. The intangible assets generated by research and development undertaken by the Group itself represented 12.88% of the carrying value of intangible assets at end of year.

(3) The project on which the research and development expenditures was incurred this year were estimated to be completed in 2014.

14. Deferred income tax assets and deferred income tax liabilities

(1) Breakdown of recognised deferred income tax assets

Item	Ending balance	Beginning balance
Deductible temporary differences	5,848,193.87	10,081,895.20
Deductible tax losses	37,433,744.15	50,837,132.72
Total	43,281,938.02	60,919,027.92

(2) Deductible tax losses of unrecognised deferred income tax assets will expire by the following periods:

Item	Ending balance	Beginning balance
To expired in 2013 (2008)	—	13,403,388.57
To expired in 2014 (2009)	18,202,472.30	18,202,472.30
To expired in 2015 (2010)	2,671,028.36	2,671,028.36
To expired in 2016 (2011)	4,214,784.52	4,214,784.52
To expired in 2017 (2012)	12,345,458.97	12,345,458.97
Total	37,433,744.15	50,837,132.72

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

15. Breakdown of assets impairment

This year

Item	Beginning balance	Increase	Decrease Reversed	Other transfer out	Ending balance
Provision for bad debts	9,797,637.83	(1,210,220.00)	—	2,921,263.59	5,666,154.24
Provision for impairment of inventories	284,257.37	176,810.12	—	279,027.86	182,039.63
Total	10,081,895.20	(1,033,409.88)	—	3,200,291.45	5,848,193.87

Last year

Item	Beginning balance	Increase	Decrease Reversed	Other transfer out	Ending balance
Provision for bad debts	5,089,825.02	4,707,812.81	—	—	9,797,637.83
Provision for impairment of inventories	447,347.55	—	—	163,090.18	284,257.37
Total	5,537,172.57	4,707,812.81	—	163,090.18	10,081,895.20

16. Short-term loans

(1) Category of short-term loans

Category	Currency	Ending balance		
		Amount in original currency	Exchange rate	Amount in RMB
Secured loans	RMB	220,000,000.00	1.0000	220,000,000.00
Guaranteed loans	US\$	41,429,206.90	6.0969	252,589,731.55
Total				472,589,731.55

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

16. Short-term loans (continued)

(1) Category of short-term loans (continued)

Category	Currency	Ending balance		
		Amount in original currency	Exchange rate	Amount in RMB
Secured loans	RMB	215,000,000.00	1.0000	215,000,000.00
Guaranteed loans	US\$	37,112,236.50	6.2855	233,268,962.52
Total				448,268,962.52

Details of guarantee:

Lender	Currency	Loan principal in original currency	Guarantor
The Industrial Bank	RMB	120,000,000.00	Powerleader Holdings, Li Ruijie
Bank of China	US\$	8,388,967.50	Powerleader Holdings, Li Ruijie, Powerleader Computing
Construction Bank of China	US\$	24,891,341.40	Powerleader Holdings, Zhang Yunxia, Li Ruijie
Ping An Bank	US\$	8,148,898.00	Powerleader Holdings, Li Ruijie
Citic Bank	RMB	100,000,000.00	Zhang Yunxia, Li Ruijie

Details of interest rates:

The annual interest rates of the short-term bank loan were 2.91% to 7.20%. The weighted average annual interest rate was 4.5756% (2012: Annual interest rates 1.3600% to 7.8720%; weighted average annual interest rate 5.5652%).

17. Accounts payable

(1) Breakdown of accounts payable

Item	Ending balance	Beginning balance
Payables for purchase of raw material	161,918,139.59	82,150,188.90
Payables for construction	9,635,927.75	—
Total	171,554,067.34	82,150,188.90

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

17. Accounts payable (continued)

(2) Aged analysis of accounts payable

The aged analysis of accounts payable presented based on recognition date as at 31 December 2013 was as follows:

Item	Ending balance	Beginning balance
Within 1 year	143,563,234.91	51,224,239.90
1 to 2 years	679,785.05	27,570,464.74
2 to 3 years	26,972,408.93	936,694.26
3 to 4 years	338,638.45	2,418,790.00
Total	171,554,067.34	82,150,188.90

(3) There were no accounts payable due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at end of the year.

(4) Accounts payable comprised the following balances in foreign currencies

Foreign currency	Ending balance			Beginning balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
US\$	6,072,091.24	6.0969	37,020,933.08	5,911,522.57	6.2855	37,156,875.11
Total			37,020,933.08			37,156,875.11

18. Receipts in advance

(1) Receipts in advance

Item	Ending balance	Beginning balance
Total	9,013,472.63	3,310,991.55
Including: over 1 year	—	—

There were no receipts in advance with significant amount aged over 1 year as at end of the year.

(2) There were no receipts in advance due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at end of the year.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

19. Employee emolument payables

Item	Beginning balance	Increase	Decrease	Ending balance
(1) Short-term salaries	427,410.37	10,383,343.68	8,019,142.83	2,791,611.22
Salaries, bonus, allowance and subsidies	427,410.37	9,380,408.51	7,028,560.35	2,779,258.53
Staff welfare	—	654,787.20	654,787.20	—
Medical insurance	—	173,932.11	173,932.11	—
Injury insurance	—	11,518.80	11,518.80	—
Maternity insurance	—	14,026.34	14,026.34	—
Housing provident fund	—	116,841.23	116,841.23	—
Union operation cost and staff education cost	—	19,476.80	19,476.80	—
Accumulated compensated leaves	—	12,352.69	—	12,352.69
(2) Post-employment benefits	—	494,375.42	494,375.42	—
Basic pension	—	472,682.78	472,682.78	—
Unemployment insurance	—	21,692.64	21,692.64	—
(3) Termination benefits	—	—	—	—
Total	427,410.37	10,877,719.10	8,513,518.25	2,791,611.22

(1) The employee emolument payables as at end of the year represents the accrued salaries of December and accumulated compensated leave. Up to the date of approval of this financial report, the salaries of December 2013 were all handed out.

(2) There were no overdue salaries as at end of 2013.

(3) The employees of the Company in the PRC participated in a retirement benefit according to the Social Security Act and relevant rules and regulation. The scheme included basic pension insurance and unemployment insurance. Members are required to contribute a certain percentage of its payroll to the pension scheme to fund the benefits. The only obligation of the Company with respect to the pension scheme is to make the required contributions under the scheme.

20. Tax payables

Item	Ending balance	Beginning balance
Business tax	16,747.20	53,688.45
VAT	9,876,159.92	3,400,106.23
Urban maintenance and construction tax	19,242.25	56,101.02
EIT	3,151,310.43	3,151,310.43
Individual income tax	20,564.13	12,154.66
Embankment fee	3,449.16	1,137.51
Education surcharge	13,744.45	40,072.16
Total	13,101,217.54	6,714,570.46

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

21. Interest payables

Item	Ending balance	Beginning balance
Interest on bank loans	394,625.00	—
Total	394,625.00	—

22. Other payables

(1) Other payables

Item	Ending balance	Beginning balance
Total	125,758,867.27	134,282,399.65
Including: Over 1 year	2,021,660.86	6,860,057.28

Other payables with significant amount and aged over 1 year were current account with subsidiaries.

(2) Breakdown of other payables

Other payables	Ending balance	Beginning balance
Current accounts with related party	83,702,656.94	133,259,054.29
Investment costs payable	38,000,000.00	—
Current account with operating units	33,394,735.50	365,140.00
Security deposit for tendering	2,460,000.00	—
Current account with individuals	201,474.83	658,205.36
Total	125,758,867.27	134,282,399.65

(3) There were no other payables due to shareholders holding over 5% (or 5%) of the Company's shares entitling voting rights as at end of the year.

(4) Other payables to related parties

Name	Ending balance	Beginning balance
Powerleader Computing	61,537,908.50	97,191,985.96
Powerleader Software	19,641,019.89	13,331,872.20
Ex-channel	—	13,280,275.11
Baoteng Internet	525,736.55	6,566,938.51
Nanjing Powerleader	1,997,992.00	1,998,100.00
Baozhongyun	—	722,542.51
Baotong Zhiyuan	—	167,340.00
Sichuan Baoteng	32,000,000.00	—
Beijing Haiyun Jiexun	6,000,000.00	—
Total	121,702,656.94	133,259,054.29

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1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

23. Non-current liabilities repayable within one year

(1) Non-current liabilities repayable within one year

Item	Ending balance	Beginning balance
Long-term loans — repayable within 1 year	60,000,000.00	—
Total	60,000,000.00	—

1) Long-term loans due within 1 year

Lender	Loan Commencement date	Loan Maturity date	Currency	Interest rate (%)	Ending balance	Terms
Construction Bank of China	31 January 2013	30 January 2016	RMB	Floating interest rate	60,000,000.00	Guaranteed
Total					60,000,000.00	

24. Other current liabilities

Item	Ending balance	Beginning balance
Accrued transportation fee	394,030.37	1,461,951.68
Accrued customs declaration fee	144,258.48	—
Total	538,288.85	1,461,951.68

25. Long-term loans

Item	Ending balance	Beginning balance
Long-term bank loans	200,000,000.00	—
Less: Amount due within 1 year and classified under non-current liabilities repayable within 1 year (Note XV. 23)	60,000,000.00	—
Long-term loans due after 1 year	140,000,000.00	—

(1) Analysis of maturity date of long-term loans

Item	Ending balance	Beginning balance
Not later than 1 year	60,000,000.00	—
1 to 2 years	140,000,000.00	—
Total	200,000,000.00	—

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

25. Long-term loans (continued)

(2) Category of long-term loans

Item	Ending balance	Beginning balance
Guaranteed loans	200,000,000.00	—
Total	200,000,000.00	—

Included in the ending balance of the year of the long-term loans of RMB200,000,000.00, RMB60,000,000.00 was due for repayment within 1 year.

The loan contract number is "Jie 2012Liu 0578 Shangbu". The loan period is 3 years. The repayment schedule is in the ways that to repay RMB20 million each quarter starting from the 13th months from the date of the loan granted; to repay RMB40 million each quarter starting from the 25th Months of the date of the loan granted; and to repay the remaining balance at the maturity date of the loan.

The terms of the long-term loan were guaranteed loans, mortgaged loans and secured loans.

- 1) Guaranteed loans were "Bao 012Liu 0578 Shangbu-1", "Bao 2012 Liu 0578 Shangbu-2", "Bao 2012 Liu 0578 Shangbu-3", "Bao 2012Liu 0578 Shangbu-4". The guarantor were Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia respectively.
- 2) The mortgaged contract was the pledge of accounts receivable contract with contract no. "Zhi 2012Liu 0578 Shangbu". It has "Pledge of accounts receivable/transfer registration agreement" numbered "Xie 2012Liu 0578 Shangbu".
- 3) Included in the property secured list was Factory building and R&D centre of Guanlan Hi-Tech Park, Guanlan Street, Baoan District, Shenzhen, the legal ownership certificate and other related certificate was "Shenfangdizi No. 5000559246", the area were 23,558.42 square meter and 8,607.82 square meter respectively. The amount secured was RMB92,367,352.00.

(3) Breakdown of long-term loans at end of the year

Lender	Commencement date	Due date	Currency	Interest rate (%)	Ending balance Amount in original currency	Beginning balance Amount in original currency
Shenzhen Branch of Construction Bank of China	31 January 2013	30 January 2016	RMB	Floating interest rate	200,000,000.00	—
Total					200,000,000.00	

- (4) The annual interest rate for long-term bank loan was 6.4575 (2012: 6.65%).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

26. Other non-current liabilities

Item	Ending balance	Beginning balance
Deferred income of asset-related government grants	4,237,000.00	1,700,000.00
Less: Amount realisable within 1 year (Note VI.26)	—	—
Amount realisable after one year	4,237,000.00	1,700,000.00

(1) Government grants

Government grant item	Beginning balance	Government grant received for the year	Amount include in non-operating income	Ending balance	Asset-related/ income related
R&D and industrialisation of high-performance servers applicable to Powercloud of cloud computing	800,000.00	—	—	800,000.00	Asset-related
R&D and industrialisation of Powerleader all domestic made high-performance servers	900,000.00	—	—	900,000.00	Asset-related
R&D of Powerleader desk top computer based on safety and reliable CPU	—	800,000.00	—	800,000.00	Asset-related
Industrial application demonstraion project for Powerleader cloud computing date centre	—	1,200,000.00	—	1,200,000.00	Asset-related
R&D of intelligent logistics technology and its application system based on UHF RFID	—	87,000.00	—	87,000.00	Asset-related
R&D of Powerleader security data storage services platform based on cloud computing	—	450,000.00	—	450,000.00	Asset-related
Total	1,700,000.00	2,537,000.00	—	4,237,000.00	

There was no return of government grants in 2012 and 2013.

27. Share capital

It was consistent with the consolidated financial statements, please refer to Note VI.29 for details.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

28. Capital reserves

This year

Item	Beginning balance	Increase	Decrease	Ending balance
Share premium	25,875,000.00	—	—	25,875,000.00
Other capital reserves	42,147.82	3,257,388.97	—	3,299,536.79
Total	25,917,147.82	3,257,388.97	—	29,174,536.79

Last year

Item	Beginning balance	Increase	Decrease	Ending balance
Share premium	25,875,000.00	—	—	25,875,000.00
Other capital reserves	7,541.11	34,606.71	—	42,147.82
Total	25,882,541.11	34,606.71	—	25,917,147.82

The movements in other capital reserves for this year were the corresponding adjustments of the other equity movements of associates.

29. Surplus reserves

This year

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	34,601,238.65	—	—	34,601,238.65
Total	34,601,238.65	—	—	34,601,238.65

Last year

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	31,141,640.70	3,459,597.95	—	34,601,238.65
Total	31,141,640.70	3,459,597.95	—	34,601,238.65

According to the PRC Company Acts and the articles of the Company, the Company is required to transfer 10% of net profit for the year to surplus statutory reserves, until balance is 50% of the registered capital. Surplus reserves can be used to offset any future losses and increase share capital. The net profit for this year is negative. No transfer was made to the statutory surplus reserves (2012: a transfer of RMB3,459,597.95 was made based on 10% of net profit).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

30. Undistributed profits

Item	This year	Last year
Ending balance of previous year	153,608,403.62	134,622,022.08
Add: Adjustments to beginning balance of undistributed profits	—	—
Including: Corrections of prior period	—	—
Beginning balance of the year	153,608,403.62	134,622,022.08
Add: Net profit attributable to shareholders of the Company	(16,666,172.54)	34,595,979.49
Less: Transfer to statutory surplus reserves		3,459,597.95
Appropriation of ordinary share dividend	12,150,000.00	12,150,000.00
Transfer to increase share capital		
Add: Profit or loss directly recorded in shareholder' equity		
Ending balance of the year	124,792,231.08	153,608,403.62

Details of distribution of ordinary share dividend: The resolution of 2012 Annual General Meeting held on 26 June 2013: Final dividends of RMB0.005 (including tax) per shares totalling RMB12,150,000.00 according to the operating results for the year ended 31 December 2012 as announced on 27 March 2013 be paid to the shareholders who were on the shareholders register on the record date.

31. Net current assets

Item	Ending balance	Beginning balance
Current assets	934,973,555.41	723,916,195.98
Less: Current liabilities	855,741,881.40	676,616,475.10
Net current assets	79,231,674.01	47,299,720.88

32. Total assets less current liabilities

Item	Ending balance	Beginning balance
Total assets	1,431,546,887.92	1,135,443,265.19
Less: Current liabilities	855,741,881.40	676,616,475.10
Total assets less current liabilities	575,805,006.52	458,826,790.09

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1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

33. Borrowings

For the purposes of reporting under Hong Kong Companies Ordinance, the borrowings of the Group are summarized as follows:

Item	Ending balance	Beginning balance
Short-term bank loans	472,589,731.55	448,268,962.49
Long-term loans	200,000,000.00	—
Total	672,589,731.55	448,268,962.49

(1) Analysis of borrowings

Item	Ending balance	Beginning balance
Bank loans		
— Wholly repayable within 5 years	672,589,731.55	448,268,962.49
— Wholly repayable after 5 years	—	—
Total	672,589,731.55	448,268,962.49

(2) Analysis of maturity date of the borrowings

Item	Ending balance	Beginning balance
Within 1 year	532,589,731.55	448,268,962.49
1 to 2 years	140,000,000.00	—
Total	672,589,731.55	448,268,962.49

34. Operating revenue and operating costs

Item	This year	Last year
Operating revenue	212,257,734.43	138,736,036.44
Other operating revenue	2,004,329.35	7,933,249.00
Total	214,262,063.78	146,669,285.44
Operating costs	173,176,751.62	105,380,427.78
Other operating costs	363,937.41	4,695,593.67
Total	173,540,689.03	110,076,021.45

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

34. Operating revenue and operating costs (continued)

Gross profit

Item	This year	Last year
Operating revenue	212,257,734.43	138,736,036.44
Operating costs	173,176,751.62	105,380,427.78
Gross profit	39,080,982.81	33,355,608.66

(1) Operating revenue and operating costs — by principal operations

Operations	This year Operating revenue	Operating costs
Cloud infrastructure as a service	212,257,734.43	173,176,751.62
Total	212,257,734.43	173,176,751.62

Operations	Last year Operating revenue	Operating costs
Cloud infrastructure as a service	138,736,036.44	105,380,427.78
Total	138,736,036.44	105,380,427.78

(2) Operating revenue and operating costs — by geographical locations

Location	This year Operating revenue	Operating costs
Domestic (Excluding Hong Kong)	212,257,734.43	173,176,751.62
Total	212,257,734.43	173,176,751.62

Location	Last year Operating revenue	Operating costs
Domestic (Excluding Hong Kong)	138,736,036.44	105,380,427.78
Total	138,736,036.44	105,380,427.78

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1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

34. Operating revenue and operating costs (continued)

Gross profit (continued)

(3) Other operating revenue and other operating costs

Operations	This year		Last year	
	Other operating revenue	Other operating costs	Other operating revenue	Other operating costs
Leasing	1,374,881.00	363,382.41	1,817,372.00	503,343.67
Service fee	602,846.00	555.00	6,071,702.00	4,192,250.00
Others	26,602.35	—	44,175.00	—
Total	2,004,329.35	363,937.41	7,933,249.00	4,695,593.67

(4) Operating revenue from top five customers for this year was RMB65,775,498.24 (Last year: 50,062,539.92) representing 30.70% (Last year: 34.13%) of total operating revenue. The details are as follows:

Name	Operating revenue	Proportion to total operating revenue (%)
The First	22,006,464.96	10.27
The Second	17,471,509.34	8.15
The Third	10,791,555.56	5.04
The Fourth	8,313,276.07	3.88
The Fifth	7,192,692.31	3.36
Total	65,775,498.24	30.70

35. Business taxes and additional taxes

Item	This year	Last year	Payment basis
Business tax	70,092.16	423,662.45	5%
Urban maintenance and construction tax	317,753.17	219,731.98	7%
Education surcharge	226,966.52	156,951.40	3%, 2%
Total	614,811.85	800,345.83	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

36. Selling expenses

Item	This year	Last year
Total	4,044,094.91	3,495,659.07
Including: Market promotion expense	1,818,664.76	531,587.51
Salaries	986,363.55	187,479.72
Project costs	246,216.67	100,236.70
Depreciation	183,068.83	183,190.18
Freight	172,851.20	924,003.49
Rental	136,448.66	709,192.91
Messing	111,765.40	43,577.00
Staff social security insurance	110,734.77	261,519.74
Telephone	68,840.99	126,858.99
Office expenses	67,756.42	69,667.34

37. Administrative expenses

Item	This year	Last year
Total	28,420,586.85	31,988,567.43
Including: Salaries	6,333,498.89	5,255,249.64
Amortisation of intangible assets	6,122,119.61	7,349,066.73
Depreciation	4,291,276.23	3,954,839.49
Listing fee	1,854,287.02	1,220,858.70
Audit fee	1,845,558.62	1,454,755.00
Water and electricity	1,507,552.37	1,500,517.75
Taxes	856,842.41	1,090,242.42
Car & truck expenses	817,160.61	635,006.56
Staff welfare	637,784.23	809,839.10
Entertainment expenses	590,408.25	434,434.87

38. Finance costs

(1) Breakdown of finance costs

Item	This year	Last year
Interest expenses	40,259,073.10	35,626,234.95
Less: Interest income	641,968.55	1,233,698.74
Add: Loss on exchange	4,967,409.31	1,498,475.42
Less: Gain on exchange	8,450,066.88	983,820.57
Handling charges	1,945,997.38	2,991,981.15
Total	38,080,444.36	37,899,172.21

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

38. Finance costs (continued)

(2) Breakdown of interest expenses

Item	This year	Last year
Interest on bank loans	40,259,073.10	35,626,234.95
Less: Amount capitalised	—	—
Total	40,259,073.10	35,626,234.95

(3) Breakdown of interest income

Item	This year	Last year
Interest income on bank deposits	641,968.55	1,233,698.74
Total	641,968.55	1,233,698.74

39. Impairment losses of assets

Item	This year	Last year
Bad debts	(1,210,220.00)	4,707,812.81
Impairment loss on inventories	176,810.12	—
Total	(1,033,409.88)	4,707,812.81

40. Investment income

(1) Source of investment income

Item	This year	Last year
Long-term equity investments accounted for using cost method	—	74,130,000.00
Long-term equity investments accounted for using equity method	8,702,275.77	1,593,299.42
Disposal of long-term equity investments	504,120.01	—
Total	9,206,395.78	75,723,299.42

Investment gain arising from listed and unlisted equity investments for the year was RMB7,807,181.83 and RMB1,399,213.95 respectively.

There are no significant restrictions on remittance of investment gains back to the Company.

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

40. Investment income (continued)

(2) Investment income from long-term equity investments accounted for using cost method

Item	This year	Last year	Reason for changes
Powerleader Computing	—	14,130,000.00	No profit appropriation was made this year
Baotong Zhiyuan	—	10,000,000.00	No profit appropriation was made this year
Powerleader Software	—	50,000,000.00	No profit appropriation was made this year
Total	—	74,130,000.00	

(3) Investment income from long-term equity investments accounted for using equity method

Item	This year	Last year	Reason for changes
Zqgame	7,807,181.83	1,593,299.42	Changes in operating results
Beijing Haiyun Jiexun Technology Limited	(292,302.05)	—	Changes in operating results
Sichuan Baoteng	1,187,395.99	—	Changes in operating results
Total	8,702,275.77	1,593,299.42	

41. Non-operating income

(1) Breakdown of non-operating income

Item	This year	Last year	Recorded as non-recurring profit or loss
Gain on disposal of non-current assets	114.53	58,227.50	114.53
Including: Gain of disposal of fixed assets	114.53	58,227.50	114.53
Government grants	800,750.00	1,158,090.00	800,750.00
Waiver of payables	2,920,638.69	—	2,920,638.69
Others	60,180.94	3,471.31	60,180.94
Total	3,781,684.16	1,219,788.81	3,781,684.16

The amount recorded as non-recurring profit or loss for this year was RMB3,781,684.16 (Last year: RMB1,219,788.81).

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

41. Non-operating income (continued)

(2) Breakdown of government grants

Item	Amount received in this year	Source and basis	Asset-related/ income-related
Support for 3 New R&D, intellectual properties special incentives (Utility patent of new model)	4,000.00	Utility patent certificate for new model	Income-related
2012 Hi-Technology Meeting subsidies	82,750.00	Municipal SME service centre	Income-related
Subsidies for patent application	14,000.00	Patent cooperation treaty and State intellectual properties	Income-related
Accredited as 2012 intellectual properties advantageous enterprise	200,000.00	Intellectual Property Bureau of Shenzhen	Income-related
Comprehensive support — payment of loan interest	500,000.00	Futian industrial development project funds review committee office	Income-related
Total	800,750.00		

Item	Amount received in last year	Source and basis	Asset-related/ income-related
Subsidies for enterprise R&D projects	50,000.00	Subsidies for enterprise R&D projects (Shenbaogui [2009] 23)	Income-related
Development project fund for Shenzhen SME	31,990.00	Gongxinbu Qiye [2011] 360	Income-related
Interest for discounting of 2007 Shenzhen SME bonds	576,100.00	Interest for discounting of 2007 Shenzhen SME bonds	Income-related
Industrial development fund	500,000.00	Industrial development fund management method of Futian, Shenzhen	Income-related
Total	1,158,090.00		

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

42. Non-operating expenses

Item	This year	Last year	Recorded as non-recurring profit or loss
Loss on disposal of non-current assets	77,402.52	1,136.35	77,402.52
Including: Loss on disposal of fixed assets	77,402.52	1,136.35	77,402.52
Donation	45,000.00	—	45,000.00
Exceptional loss	364.14	—	364.14
Others	126,332.48	47,679.03	126,332.48
Total	249,099.14	48,815.38	249,099.14

Non-operating expenses recorded as non-recurring profit or loss for this year was RMB249,099.14 (Last year: RMB48,815.38).

43. Income tax expenses

(1) Income tax expenses

Item	This year	Last year
Current income tax	—	—
Deferred income tax	—	—
Total	—	—

(2) Reconciliation of total profit to current income tax for the year

Reconciliation of total profit based on the income statement to current income tax for the year was as follows:

Item	This year	Last year
Total profit	(16,666,172.54)	34,595,979.49
Income tax calculated at applicable tax rates of 15% (2012: 15%)	(2,499,925.88)	5,189,396.92
Tax effect of non-taxable income	—	—
Tax effect of non-deductible expenses	—	(5,189,396.92)
Tax effect of special tax exemption	—	—
Effect of inconsistent tax rate among subsidiaries	—	—
Utilisation of unrecognised deductible temporary differences	—	—
Unrecognised deductible losses and deductible temporary differences	2,499,925.88	—
Under-provision/over-provision in prior years	—	—
Adjustment to beginning balance of deferred income assets/deferred income liabilities as a result of change in tax rate	—	—
Income tax expenses	—	—

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

44. Depreciation and amortization

Depreciation recognised in income statement for this year was RMB5,528,878.95 (Last year: RMB4,750,090.28), amortisation recognised in come statement for this year was RMB6,122,119.61 (Last year: RMB7,349,066.69).

45. Non-operating expenses

The rental expenses under operating leases for the year was RMB232,448.66 (Last year: RMB1,068,742.91). There were no rental expenses in respect of plant and machinery.

46. Rental income

Rental income from land and building (net of government rent, rates and other expenditure) was RMB1,374,881.00 (Last year: RMB1,817,372.00).

47. Other comprehensive income

Item	This year	Last year
1. Gain/(loss) on available-for-sale financial assets	—	—
Less: Income tax effect on available-for-sale-financial assets	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Sub-total	—	—
2. Share of comprehensive income of investee accounted using equity method	(9,527.61)	4,334.26
Less: Income tax effect on share of comprehensive income of investee accounted using equity method	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Sub-total	(9,527.61)	4,334.26
3. Gain/(loss) on cash flow hedging instrument	—	—
Less: Tax effect on cash flow hedging instrument	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Amount transfer to as adjustment to the initial recognition amount of the hedged item	—	—
Sub-total	—	—
4. Exchange difference on translation of financial statements denomination of foreign currencies	—	—
Less: Net amount transfer to profit of loss for the year for the disposal of foreign operations	—	—
Sub-total	—	—
5. Others	—	—
Less: Income tax effect	—	—
Net amount of comprehensive income of previous recycle to current year's profit or loss	—	—
Sub-total	—	—
Total	(9,527.61)	4,334.26

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XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

48. Cash flow statement items

(1) Other cash receipts/Other cash payments relating to operating/investing/financing activities

1) Other cash receipts relating to operating activities

Item	This year	Last year
Current accounts with individuals and operating units	2,460,000.00	150,828,487.30
Government grants	3,337,750.00	1,178,090.00
Interest income	641,968.55	1,233,698.74
Security deposits	571,277.69	1,386,452.83
Others	2,024,910.29	216,895.63
Total	9,035,906.53	154,843,624.50

2) Other cash payments relating to operating activities

Item	This year	Last year
Current accounts with individuals and operating units	171,501,005.08	1,188,500.00
Freight	199,059.70	924,003.49
Market promotion expenses	1,818,664.76	531,587.51
Rental	232,448.66	1,087,942.91
Travelling	372,243.41	507,310.02
Entertainment	455,347.33	700,651.30
Water and electricity	1,507,854.37	1,696,181.12
Telephone	375,311.21	473,709.99
Audit fee	1,845,558.62	1,454,755.00
Motor vehicle expenses	820,841.11	740,746.67
Transportation	67,126.15	166,049.50
Office expenses	346,595.87	391,304.53
Property management fee	23,405.08	31,393.45
Research and development	302,728.34	261,769.00
Bank charges	1,945,997.38	2,991,981.14
Others	2,866,023.72	6,711,945.73
Total	184,680,210.79	19,859,831.36

3) Other cash receipts relating to financing activities

Item	This year	Last year
Unfreeze of security deposit for letter of credits	11,175,413.12	—
Total	11,175,413.12	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

48. Cash flow statement items (continued)

(1) Other cash receipts/Other cash payments relating to operating/investing/financing activities (continued)

4) Other cash payments relating to financing activities

Item	This year	Last year
Security deposit for letter of credits	—	22,600,733.23
Listing fee	—	1,600,000.00
Total	—	24,200,733.23

(2) Supplementary information for cash flow statement of the Company

Item	This year	Last year
1. Reconciliation of net profits to cash flows from operating activities		
Net profit	(16,666,172.54)	34,595,979.49
Add: Assets impairment losses	(1,033,409.88)	4,707,812.81
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of bearer biological assets	5,528,878.95	4,750,090.28
Amortisation of intangible assets	6,122,119.61	7,349,066.69
Amortisation of long-term prepayments	—	—
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain is denoted as “()”)	77,287.99	(57,091.15)
Loss on scrapping of fixed assets (Gain is denoted as “()”)	—	—
Loss on changes in fair value (Gain is denoted as “()”)	—	—
Finance costs (income is denoted as “()”)	40,259,073.10	35,626,234.96
Loss on investment (Gain is denoted as “()”)	(9,206,395.78)	(75,723,299.42)
Decrease in deferred income tax assets (Increase is denoted as “()”)	—	—
Increase in deferred tax liabilities (Decrease is denoted as “()”)	—	—
Decrease in inventories (Increase is denoted as “()”)	(43,492,068.19)	(1,271,236.00)
Decrease in operating receivables (Increase is denoted as “()”)	(180,677,394.01)	130,498,820.39
Increase in operating payables (Decrease is denoted as “()”)	43,537,683.73	7,080,330.33
Others	—	—
Net cash flow from operating activities	(155,550,397.02)	147,556,708.38
2. Significant non-cash investing and financing transactions:		
Debts transfer to as capital	—	—
Convertible corporate bonds due within 1 year	—	—
Acquisition of fixed assets under finance leases	—	—
3. Changes in cash and cash equivalents		
Ending balance of cash	211,223,695.43	111,862,940.93
Less: Beginning balance of cash	111,862,940.93	196,276,474.28
Add: Ending balance of cash equivalents	—	—
Less: Beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	99,360,754.50	(84,413,533.35)

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

XV. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

(continued)

48. Cash flow statement items (continued)

(3) Information of acquisition of or disposal of subsidiary or other operating units

Item	This year	Last year
Information on disposal of subsidiaries		
1. Consideration of disposal of subsidiaries or other operating undertakings	—	—
2. Cash and cash equivalents received from disposal of subsidiaries or other operating units	173,563.48	—
Less: Cash and cash equivalent balance of the disposing subsidiaries or other operating units	—	—
3. Net cash received from disposal of subsidiaries or other operating units	173,563.48	—
4. Net assets of the disposing subsidiaries	337,793.68	—
Current asset	501,779.86	—
Non-current asset	—	—
Current liability	163,986.18	—
Non-current liability	—	—

(4) Cash and cash equivalents

Item	This year	Last year
Cash	211,223,695.43	111,862,940.93
Including: Cash in hand	238,756.63	474,830.71
Bank deposits readily available for payments	210,984,938.80	111,388,110.22
Other bank deposit and cash readily available for payments	—	—
Cash equivalents	—	—
Including: Investments in bonds with maturity date within 3 months	—	—
Ending balance of cash and cash equivalents	211,223,695.43	111,862,940.93
Restricted cash and cash equivalents of the company or subsidiaries	—	—

49. Shareholder's equity statement items

The "Other" of RMB3,266,916.58 included in the shareholder's equity statements for this year: capital reserves of RMB1,433,583.25 arising from share based payments of Zqgame; 2) share premium of RMB1,833,333.33 of Beijing Haiyun. Last year, the "Other" included capital reserves of RMB30,272.45 arising from share based payments of Zqgame.

XVI. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 28 March 2014.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

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 for 2013 are as follows:

Item	2012	2011
Gain on disposal of non-current assets	1,901,552.26	24,606.31
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	—	—
Government grants credited to profit for the period	3,816,350.00	4,944,090.00
Funds-use income received by non-financial enterprises and credited to the profit or loss for the year	—	—
The excess of the share of fair value of net identifiable assets of the investee company over the cost of investment of acquisition of subsidiaries, associates and jointly controlled entities	—	—
Gain or loss from exchange of non-monetary assets	—	—
Income received from held for trust loans during the period	—	—
Assets impairment due to uncontrollable factors such as nature disasters	—	—
Gain or loss on debts restructuring	—	—
Re-organisation expenses	—	—
Profit or loss of excess portion of transactions price which was clearly unfair and the amount at fair value	—	—
Profit or loss generated by the subsidiary before the business combination under common control	—	—
Profit or loss on contingency matters outsider the normal course of business	—	—
Except for effective hedging for the ordinary course of operations of the company, profit or loss arising from fair value change in financial assets held for trading and financial liabilities held for trading; and investment income from gain or loss on disposal of financial assets held for trading, financial liabilities held for trading and available for sale financial assets	546,878.25	332,407.64
Reversal of provision for bad debts for accounts receivables which was individually tested for impairment	—	—
Income received from held for trust loans during the period	—	—
Changes in fair value of investment properties measured at fair value	—	—
One-off adjustments to profit or loss for the year made in accordance with the tax, accounting regulations	—	—
Custodian fee for entrusted operations	—	—
Non-operating income and expenses other than the above items	3,218,160.97	1,248,965.49
Other profit and loss items meet the definition of non-recurring	—	—
Sub-total	9,482,941.48	6,550,069.44
Effect on income tax	(1,327,934.88)	(989,234.93)
Effect on minority interest (after tax)	(900.00)	48.91
Total	8,154,106.60	5,560,883.42

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS (continued)

2 RECONCILIATION OF PROFIT AND SHAREHOLDER'S EQUITY UNDER HK GAAP AND PRC GAAP

(1) Reconciliation of profit for the year ended 31 December 2012

Item	Financial statements under HK GAAP	Reclassification	Financial statements under PRC GAAP (Re-stated)	Explanation of reclassification
Operating revenue	1,737,218,888.06	13,553,686.63	1,750,772,574.69	Reclassified from other income and profits; reclassified to sales tax and levies
Operating costs	1,691,813,892.89	504,916.90	1,692,318,809.79	
Cost of operation	1,529,416,999.87	578,123.60	1,529,995,123.47	Reclassify with administrative expenses
Sales tax and levies	—	2,463,676.39	2,463,676.39	Reclassified from operation revenue
Selling expenses	39,637,288.83	—	39,637,288.83	
Other costs	76,766,057.13	(76,766,057.13)	—	reclassify to administrative expenses, finance costs, impairment loss of assets, non-operating income
Administrative expenses	—	60,018,964.46	60,018,964.46	
Finance costs	45,993,547.06	3,196,408.87	49,189,955.93	reclassify with other income and profits, administrative costs
Impairment loss of assets	—	11,013,800.71	11,013,800.71	reclassify with administrative expenses, other income and profits
Other income and profits	23,639,650.57	(23,639,650.57)	—	reclassify to operating revenue, non-operating income
Gain on Fair Value changes	178,693.25	—	178,693.25	
Share of results in joint ventures and associates	1,623,572.00	(1,623,572.00)	—	reclassify to investment income
other investment income	—	(153,714.39)	—	reclassify to investment income
Investment income	—	1,777,286.39	1,777,286.39	
Operating Profit	70,846,910.99	(10,437,166.45)	60,409,744.54	
Add:Non-operating income	—	10,857,887.46	10,857,887.46	reclassify with other income and profit, selling expenses, administrative expenses
Less:Non-operating expenses	—	420,721.01	420,721.01	Reclassify with administrative expenses
Total profit	70,846,910.99	—	70,846,910.99	
Less: Income tax expenses	(7,842,169.98)	—	(7,842,169.98)	
Net profit	78,689,080.97	—	78,689,080.97	
Other comprehensive income	4,334.26	—	4,334.26	
Total comprehensive income	78,693,415.23	—	78,693,415.23	
Net profit attributable to:				
Shareholders of the Company	78,742,985.67	—	78,742,985.67	
Minority interests	(53,904.70)	—	(53,904.70)	
Total comprehensive income attributable to:				
Shareholders of the Company	78,747,319.93	—	78,747,319.93	
Minority interests	(53,904.70)	—	(53,904.70)	
Earnings per share				
Basic earnings per share (RMB/share)	0.3240	—	0.3240	
Diluted earningper share (RMB/share)	0.3240	—	0.3240	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS (continued)

2 RECONCILIATION OF PROFIT AND SHAREHOLDER'S EQUITY UNDER HK GAAP AND PRC GAAP (continued)

(2) Reconciliation of shareholders' equity for the year ended 31 December 2012

Item	Financial statements under HK GAAP	Reclassification	Financial statement under PRC GAAP (Re-stated)	Explanation of reclassification
Current assets:				
Cash and bank balances	—	241,923,342.50	241,923,342.50	
Pledged bank deposits	26,800,691.86	(26,800,691.86)	—	Reclassify to Cash and bank balances
Restricted bank balances	20,228,032.56	(20,228,032.56)	—	Reclassify to Cash and bank balances
Structured deposit	4,808,220.00	(4,808,220.00)	—	Reclassify to Cash and bank balances
Bank balance and cash	190,086,398.08	(190,086,398.08)	—	Reclassify to Cash and bank balances
Financial asset designated to be measured by fair value and which change is recorded in current incomes	178,693.25	—	178,693.25	
Notes receivables	—	28,224,142.28	28,224,142.28	Reclassify from Trade and bills receivables
Account receivables	—	360,538,998.63	360,538,998.63	Reclassify from Trade and bills receivables, Receipts in advance
Trade and bills receivables	387,625,583.13	(387,625,583.13)	—	Reclassify to Notes receivables and Account receivables
Prepayments	—	24,063,804.96	24,063,804.96	
Prepaid lease payment	966,181.07	(966,181.07)	—	
Amount due to a related company	7,600.00	(7,600.00)	—	Reclassify to account receivables
Other receivables	—	152,531,800.66	152,531,800.66	
Other receivables, deposits and prepayments	141,664,789.46	(141,664,789.46)	—	Reclassify to Prepayments and Other receivables
Inventories	175,100,856.14	—	175,100,856.14	
Total current assets	947,467,045.55	35,094,592.87	982,561,638.42	
Non-current assets:				
Long-term equity investments	—	154,667,011.01	154,667,011.01	
Investments in joint ventures and associate	136,667,011.01	(136,667,011.01)	—	Reclassify to Long-term equity investments
Other long-term equity investment	18,000,000.00	(18,000,000.00)	—	Reclassify to Long-term equity investments
Fixed assets	—	222,952,104.16	222,952,104.16	Reclassify from property, plant and equipment, long-term prepayments
Property, plant and equipment	224,103,601.00	(224,103,601.00)	—	Reclassify to fixed assets
Intangible assets	—	84,861,983.89	84,861,983.89	Reclassify from deferred development costs, prepaid lease payment
Development expenditures	—	16,800,606.80	16,800,606.80	Reclassify from deferred development costs
Deferred development costs	39,407,074.05	(39,407,074.05)	—	Reclassify to development expenditures
Prepaid lease payment	60,423,876.03	(60,423,876.03)	—	Reclassify to intangible assets
Long-term prepayments	—	135,145.42	135,145.42	Reclassify from property, plant and equipment
Total non-current assets	478,601,562.08	815,289.19	479,416,851.28	
Total assets	1,426,068,607.64	35,909,882.06	1,461,978,489.70	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS *(continued)*

2 RECONCILIATION OF PROFIT AND SHAREHOLDER'S EQUITY UNDER HK GAAP AND PRC GAAP *(continued)*

(2) Reconciliation of shareholders' equity for the year ended 31 December 2012 *(continued)*

Item	Financial statements under HK GAAP	Reclassification	Financial statement under PRC GAAP (Re-stated)	Explanation of reclassification
Liabilities and owner's equity				
Current liabilities				
Short-term loans	563,833,815.83	(20,938,706.96)	542,895,108.87	Reclassify with non-current liabilities due within one year
Notes payable	—	832,225.90	832,225.90	Reclassify from Trade and bills payables
Trade and bills payables	100,847,621.12	(100,847,621.12)	—	
Account payables	—	148,363,192.93	148,363,192.93	Reclassify from Trade and bills payables, other receivables, other payables
Receipts in advance	17,038,125.45	(737,585.51)	16,300,539.94	Reclassify with account receivables, other payables
Employee emolument payables	—	3,669,412.35	3,669,412.35	Reclassify from accrued expenses and other payables
Taxes Payable	11,786,983.25	(8,351,763.47)	3,435,219.78	Reclassify with other receivables, other payables
Amount due to a related company	8,144.30	(8,144.30)	—	Reclassify to other payables
Amount due to an associate	134,993.00	(134,993.00)	—	Reclassify to other payables
Amount due to a shareholder	9,280.00	(9,280.00)	—	Reclassify to other payables
Other payables	—	10,068,483.22	10,068,483.22	Reclassify from accrued expenses and other payables, receipts in advance
Accrued expenses and other payables	18,046,640.46	(18,046,640.46)	—	
Non-current liabilities due within one year	—	20,000,000.00	20,000,000.00	Reclassify from short-term loans
Other current liabilities	—	2,051,302.48	2,051,302.48	Reclassify from accrued expenses and other payables, employee emolument payables
Sub-total of current liabilities	711,705,603.41	35,909,882.06	747,615,485.47	
Non-current liabilities				
Deferred tax liabilities	3,612,773.20	—	3,612,773.20	
Other non-current liabilities	4,700,000.00	—	4,700,000.00	
Sub-total of non-current liabilities	8,312,773.20	—	8,312,773.20	
Total liabilities	720,018,376.61	35,909,882.06	755,928,258.67	
Shareholders' equity:				
Share capital	243,000,000.00	—	243,000,000.00	
Reserves	462,892,160.43	(462,892,160.43)	—	
Capital reserves	—	28,729,862.88	28,729,862.88	Reclassify from reserves
Surplus reserves	—	34,601,238.65	34,601,238.65	Reclassify from reserves
Undistributed profits	—	399,561,058.90	399,561,058.90	Reclassify from reserves
Sub-total of equity attributable to the Company's shareholders	705,892,160.43	—	705,892,160.43	
Minority interests	158,070.60	—	158,070.60	
Total shareholders' equity	706,050,231.03	—	706,050,231.03	
Total liabilities and owner's equity	1,426,068,607.64	35,909,882.06	1,461,978,489.70	

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS *(continued)*

3. RETURNS ON NET ASSETS AND EARNING 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 returns on net assets, basic earnings per share and diluted earnings per share of the Company for the year ended 31 December 2013 are as follows:

(1) Rate of returns on net assets and earnings per shares for the reporting period

Profit for the reporting period	Reporting period	Weighted average returns on net assets (%)	Earnings per share	
			Basic earnings per share	Diluted earnings per share
Net profit attributable to the shareholders of the Company	2013	6.87	0.2067	0.2067
	2012	18.19	0.3240	0.3240
Net profit attributable to shareholders of the Company (excluding non-recurring profit and loss)	2013	5.76	0.1731	0.1731
	2012	16.90	0.3012	0.3012

4. SUPPLEMENTARY INFORMATION OF INCOME STATEMENT FOR EXPENSES CLASSIFIED BY NATURE

Item	This year	Last year
1. Raw materials consumed	156,912,891.71	111,816,840.96
2. Staff emolument expenses	36,293,203.66	32,160,731.90
Including: Salaries, bonus, welfares	32,699,871.41	28,970,264.29
Retirement plan contributions	3,593,332.25	3,190,467.61
3. Depreciation	9,943,625.02	10,060,318.37
4. Amortisation	16,047,464.46	16,444,594.92
5. Research and development expenses	2,492,538.07	4,448,260.58
6. Marketing promotion expenses	5,848,683.81	4,382,822.94
7. Provision for (Reversal of) bad debts	4,832,233.28	10,173,630.75
8. Impairment of inventories	496,720.30	840,169.96
9. Taxation	2,659,416.03	2,737,760.85
10. Entertainment	2,021,711.93	2,241,866.57

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS *(continued)*

5. EXPLANATIONS OF CHANGES IN SIGNIFICANT ITEMS

The analysis of significant items whose fluctuation are over 30% (inclusive of 30%) as compared with last year; or whose amount are more than 5% (inclusive of 5%) of the total assets; or 10% (inclusive of 10%) of the total profit of the Group for the year of 2013.

Assets	Notes	Ending balance	Beginning balance	Changes	Percentage of changes (%)
Cash and bank balances	Note 1	370,444,415.57	241,923,342.50	128,521,073.07	53.12
Accounts receivable	Note 2	395,920,420.06	360,538,998.63	35,381,421.43	9.81
Prepayments	Note 3	32,346,250.20	24,063,804.96	8,282,445.24	34.42
Other receivables	Note 4	173,759,856.44	152,531,800.66	21,228,055.78	13.92
Inventories	Note 5	190,991,433.57	175,100,856.14	15,890,577.43	9.08
Long-term equity investments	Note 6	204,433,275.76	154,667,011.01	49,766,264.75	32.18
Investment properties	Note 7	16,838,422.38	—	16,838,422.38	—
Fixed assets	Note 8	201,220,888.57	222,952,104.16	(21,731,215.59)	(9.75)
Construction in progress	Note 9	24,249,172.78	—	24,249,172.78	—
Intangible assets	Note 10	96,832,657.57	84,861,983.89	11,970,673.68	14.11
Development expenditures	Note 11	37,043,811.51	16,800,606.80	20,243,204.71	120.49

Note 1: There were new long-term bank loan of RMB200 million.

Note 2: It was caused by the delay payment from a major customer of the subsidiary, Ex-channel.

Note 3: New distribution project was added which cause the increase in prepayments.

Note 4: It was caused by increase in overseas payment for inventories and tax for the independent custom declaration company — Yingjiexun.

Note 5: It was caused by the increase in inventories of the subsidiary, Ex-channel. As the sales were below expectation, the inventories were not sold at the year end.

Note 6: Increase in investment in Sichuan Baoteng and Beijing Haiyun Jiexun Technology Limited.

Note 7: It was caused by the buildings that during the year the management determined firmly to be leased out for long-term were reclassified as investment properties at the year end.

Note 8: It was caused by the increase in depreciation.

Note 9: 2 construction in progress were increased for the year: IDC plant for Powerleader Technology and research and development building for Nanjing Powerleader.

Note 10: It was mainly caused by the new addition of costs of land use rights for Nanjing Powerleader.

Note 11: It was caused by the increase in self-research and development projects that have not been reached to intended use conditions at the year end.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS *(continued)*

5. EXPLANATIONS OF CHANGES IN SIGNIFICANT ITEMS *(continued)*

Liabilities and shareholder's equity	Index	Ending balance	Beginning balance	Changes	Percentage in changes (%)
Short-term loans	Note 1	552,801,859.89	542,895,108.87	9,906,751.02	1.82
Accounts payable	Note 2	165,464,646.87	148,363,192.93	17,101,453.94	11.53
Employee emolument payables	Note 3	5,400,368.45	3,669,412.35	1,730,956.10	47.17
Tax payables	Note 4	14,818,814.62	3,435,219.78	11,383,594.84	331.38
Other payables	Note 5	47,496,439.82	10,068,483.22	37,427,956.60	371.73
Non-current liabilities due within 1 year	Note 6	60,000,000.00	20,000,000.00	40,000,000.00	200.00
Long-term loans	Note 6	140,000,000.00	—	140,000,000.00	—
Deferred income tax liabilities	Note 7	1,513,303.41	3,612,773.20	(2,099,469.79)	(58.11)
Other non-current liabilities	Note 8	8,637,000.00	4,700,000.00	3,937,000.00	83.77

Note 1: Short-term loans were mainly the loans for current fund and loans for letter of credit. They represented a relatively high percentage of total assets but a relatively low movement between two years.

Note 2: Caused by the increase in accounts payable to Fujitsu. The Company delayed in payment of certain amount to Fujitsu led to the increase in accounts payable.

Note 3: The average staff salaries for the year were increased as compared with last year.

Note 4: It was mainly caused by the increase in VAT payables. The VAT invoices from certain suppliers were not collected in time, the input VAT could not be offset.

Note 5: Some investment cost for Baotang has not yet paid.

Note 6: Included in the new loan of RMB200 million raised during the year, RMB60 millions would fall due in 2014.

Note 7: Losses of certain subsidiaries were offset with the originally provided deferred income tax liabilities.

Note 8: It was mainly because more government grants were deferred as deferred income during the year.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2013 to 31 December 2013

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS *(continued)*

5. EXPLANATIONS OF CHANGES IN SIGNIFICANT ITEMS *(continued)*

Profit or loss	Index	Ending balance	Beginning balance	Changes	Percentage in changes (%)
Operating revenue	Note 1	1,560,677,930.33	1,750,772,574.69	(190,094,644.36)	(10.86)
Operating costs	Note 1	1,376,359,016.30	1,529,995,123.47	(153,636,107.17)	(10.04)
Selling expenses	Note 2	42,666,930.00	39,637,288.83	3,029,641.17	7.64
Administrative expenses	Note 3	53,794,543.59	60,018,964.46	(5,603,675.95)	(9.34)
Finance costs	Note 4	45,344,781.41	49,189,955.93	(3,845,174.52)	(7.82)
Impairment loss of assets	Note 5	5,328,953.58	11,013,800.71	(5,684,847.13)	(51.62)
Investment income	Note 6	11,065,648.37	1,777,286.39	9,288,361.98	522.61
Non-operating income	Note 7	11,387,188.83	10,857,887.46	529,301.37	4.87
Income tax expenses	Note 8	6,338,140.68	(7,842,169.98)	14,180,310.66	(180.82)

Note 1: It was mainly caused by decrease in sales revenue from Cloud Module as a Service (MaaS). The operating costs were decrease accordingly.

Note 2: It was caused by the increase in salaries of salesman and marketing promotion fee.

Note 3: The decrease in administrative expenses was caused by the strengthened management control in reducing costs and expenditures.

Note 4: The decrease in finance cost was caused by the appreciation of RMB.

Note 5: The increase in provision for bad debts was caused by the increase in the year end balance of accounts receivable and other receivables.

Note 6: It was caused by the increase in investment income from associate Zqgame and from disposal of Shen-Viet Joint Investment.

Note 7: Certain projects have not yet acceptance at the year end, the related government grant received during the year was transferred to deferred income.

Note 8: The application of off-shore income of the subsidiary Ex-channel of the year of 2012 was approved by the Tax Authority during the year. The tax amount provided previously was offset with the taxation of current year.

Powerleader Science & Technology Group Limited

28 March 2014