

SOU 300 GROUP HOLDING COMPANY

QUARTERLY REPORT

**QUARTERLY PERIOD ENDING
JUNE 30, 2015**

1) Name of the issuer

Sou 300 Group Holding Company

2) Address of the issuer's principal executive offices

Company Headquarters

Address: Room 1101, Floor 11, Longhui Building, Building1, Nongguangnanli, Chaoyang District, Beijing, PRC

Phone: +86-10-67351845

Email: sou300@sou300.com

Website(s): www.sou300.com

IR Contact

Name: Yong ZHAO

Address: Room 1101, Floor 11, Longhui Building, Building1, Nongguangnanli, Chaoyang District, Beijing, PRC

Phone: +86-10-67351845

Email: sou300@sou300.com

Website(s): www.sou300.com

3) Security Information

Trading Symbol: SOUG

Exact title and class of securities outstanding: Common Shares

CUSIP: 784666208 Par or Stated Value: 0.001

Total shares authorized: 1,050,000,000 as of: August 25, 2015

Total shares outstanding: 1,046,550,007 as of: August 25, 2015

Additional class of securities:

Transfer Agent

Name: VStock Transfer, LLC

Address: 18 Lafayette Place

Woodmere, New York 11598

Phone: (212)-828-8436

Is the Transfer Agent registered under the Exchange Act?* Yes: No:

On April 13, 2015, the Company implemented a reverse share split on a two to one ratio, pursuant to which 2,020,000,006 issued and outstanding shares of common stock were combined into 1,010,000,007 shares of common stock.

As of August 25, 2015, there were 478,754 unrestricted common shares.

4) Issuance History

Sou 300 Group Holding Company ("SOU300" or the "Company") is a Nevada corporation incorporated on June 24, 2010, and is quoted on the OTC Pink Market ("OTC Market"). Upon incorporation, the Company had 100,000,000 authorized

common shares and 10,000,000 authorized preferred shares, with \$0.001 par value per share.

On June 25, 2010, the Company entered into a Share Exchange Agreement with Beijing Jiexunhuatai Technology Limited Co., Ltd. (“JXHT”), a PRC company mainly engaged in online search and marketing, development and sale of software and mobile phones in the PRC. Mr. Zhao Yong and Ms. Wang Huazhen each holds 50% equity interests of JXHT, respectively. Pursuant to the Share Exchange Agreement, the Company intends to acquire all of the equity interest of JXHT.

Due to restrictions and limitations of relevant PRC laws and regulations, particularly in the field of foreign acquisition and foreign investment in the telecommunication industry, the Share Exchange Agreement with JXHT was not in compliance with such laws and regulations and the Company never applied with relevant government authorities in PRC for approval of the share exchange. As a result, the consolidation of financial statements filed in the past were prepared in error. The Company and JXHT have determined the Share Exchange Agreement was never effective and the share exchange transaction contemplated by the Share Exchange never occurred.

On June 25, 2010, the Company issued 20,000,006 shares of common stock, \$0.001 par value per share, to fifty (50) non-U.S. persons who are senior management, employees or individual sales agents of JXHT, or their designated persons, for consideration for their continuous service and contribution to the Company (the “2010 Issuance”). The issuance was made pursuant to an exemption from registration pursuant to Regulation S under the Securities Act of 1933, as amended (the “Securities Act”).

On May 23, 2013, the Company increased the number of the authorized common shares from 100,000,000 to 2,100,000,000. On June 5, 2013, the Company issued 2,000,000,000 shares of common shares to 671 persons (among which, 48 are original shareholders and 623 are new shareholders) who are senior management, employees or individual sales agents of JXHT, or their designated persons in consideration for their continuous service and contribution to JXHT and the Company (the “2013 Issuance”). The issuance to non US persons was made pursuant to an exemption from registration pursuant to Regulation S under the Securities Act. The issuance to the one shareholder who is a US citizen was made pursuant to an exemption from registration provided in Section 4(a)(2) of the Securities Act of 1933, as amended.

The share certificates of SOU300 issued in the 2010 Issuance and 2013 Issuance to non US persons contain a legend stating:

“THE SECURITIES ARE BEING OFFERED TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (“SECURITIES ACT”)) AND WITHOUT REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT IN RELIANCE UPON REGULATION S PROMULGATED UNDER THE SECURITIES ACT.”

“TRANSFER OF THESE SECURITIES IS PROHIBITED, EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S, PURSUANT TO REGISTRATION UNDER THE SECURITIES ACT, OR PURSUANT TO AVAILABLE EXEMPTION FROM REGISTRATION. HEDGING TRANSACTIONS MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT.”

The share certificates of SOU300 issued in the 2013 Issuance to a US Holder contain a legend stating:

“THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO AN EXEMPTION TO SUCH ACT.”

As a result of the 2010 Issuance and 2013 Issuance accumulatively involving more than 200 specified shareholders for the Company’s securities, it is deemed a public offering under the Securities Law of the PRC and subject to various mandatory legal and administrative requirements, including reporting to the China Securities Regulatory Commission (the “CSRC”) for examination and approval. The Company failed to go through any of the above-mentioned procedures for the 2013 Issuance. Pursuant to the Securities Law of the PRC, where an entity, without approval of the statutory authority, publicly issues securities shall be ordered to cease such issuing and return the funds thus raised (if any), plus the bank deposit interest for the same period, and shall be fined not less than one percent but not more than five percent of the amount of the illegally raised funds; the company incorporated through public issuance of securities without approval shall be banned by the authority. The person directly in charge and the other persons directly responsible shall be given a warning and, in addition, be fined not less than \$4,840 (RMB30,000) but not more than \$48,401 (RMB300, 000) each.

On April 13, 2015, the Company implemented a reverse share split on a two to one ratio, pursuant to which 2,020,000,006 issued and outstanding shares of common stocks were combined into 1,010,000,007 shares of common stock.

On June 30, 2015, the Company entered into a series acquisition agreement with each shareholder of YishuiLihua Oil Co., Ltd. (“YSLH”), Shanghai Minnan Wood Co., Ltd. (“Minnan Wood”), PutianHuanqiu Wood Co., Ltd (“Putian Wood”). And Runjet Trading Co., Limited (“RUNJET”), pursuant to which, the Company shall issue: (i) 6,000,000 shares of common stock to Mr. Zhang Fuli, shareholder of YSLH, (ii) 987,000 and 63,000 shares of common stock respectively to Ms. Ye Sulan and

Mr. Ye Dehong, shareholders of Minnan Wood, (iii) 2,000,000 and 500,000 shares of common stock respectively to Mr. Wu Jianhua and Mr. Wu Jianping, shareholders of Putian Wood, and (iv) 27,000,000 shares of common stock to Mr. Tu Xiaojun, shareholder of RUNJET, as purchase price for such acquisitions. As of August 25, the shares have not been issued yet.

As of August 25, 2015, there were 680 record owners of our common stock and no record owner of our preferred stock.

5) Financial Statements

The Company's unaudited financial statements for the quarterly period ended June 30, 2015 and related footnotes are attached hereto as part of the Company's Quarterly Report and filed herewith.

6) The Issuer's Business, Products and Services

Fiscal Year End

The end of the fiscal year of the Company is December 31.

SIC

SIC-Industry Classification 7370-Services-Computer Programming, Data Processing, Etc.

Corporate History and Structure

Sou 300 Group Holding Company (“SOU300” or the “Company”) is a Nevada corporation incorporated on June 24, 2010, and is quoted on the OTC Market. Previous organizational efforts pursuant to a Share Exchange with Beijing Jiexunhuatai Technology Limited Co., Ltd. (“JXHT”) were completed erroneously and were not effective as described above. As a result, the Company recently reorganized as described below.

On August 21, 2014, the Company acquired SOU 300 GROUP HLDG CO. LIMITED (“SOU300 HK”), a holding company established by Mr. Hung, Hai-Chuan under Hong Kong laws, subsequent to which, SOU300 HK become a wholly-owned subsidiary of the Company. On July 11, 2014, SOU300 HK established a wholly foreign owned enterprise, QuanSou 300 (Beijing) Technology Co., Ltd. (“SOU300 WFOE”) in Haidian District, Beijing, PRC. On August 1, 2014, SOU300 WFOE has entered into the VIE Agreements (as described in more details below) with JXHT.

JXHT was founded in Beijing, PRC on August 14, 2008. JXHT mainly engages in online search and marketing, sale of key search terms, development and sale of software and mobile phone in PRC. The conducting of these businesses above requires an operating ICP license, which is not available for a foreign invested enterprise.

Due to PRC legal restrictions on foreign ownership and investment in China, we operate our PRC business primarily through our variable interest entity, JXHT, in China. We do not hold equity interests in JXHT. It is through the VIE Agreements that we have effective control of JXHT, which allows us to consolidate the financial results of JXHT in our financial statements. If JXHT and its shareholders fail to perform their obligations under the VIE Agreements, we could be limited in our ability to enforce the VIE Agreements that give us effective control. Furthermore, if we are unable to maintain effective control of JXHT, we would not be able to continue to consolidate JXHT’s financial results with our financial results. On January 19, 2015, the Ministry of Commerce of China (“MOFCOM”) published a draft version of a proposed Foreign Investment Law (the “Draft Foreign Investment Law”) with an explanatory note. MOFCOM has requested comments from the public on the Draft Foreign Investment Law by February 17, 2015, which, once promulgated, will replace and integrate the three existing laws over foreign investment, however, how these changes will affect entities currently operating in China, particularly foreign controlled variable interest entities, is not entirely clear.

On August 1, 2014, SOU300 WFOE and JXHT and its shareholders entered into a series of agreements known as variable interest agreements (the “VIE Agreements”) pursuant to which SOU300 WFOE has executed effective control over JXHT through these contractual arrangements. The VIE Agreements included:

- (1) An Exclusive Technology Consultancy and Service Agreement through which SOU300 WFOE is appointed the exclusive services provider to provide JXHT with complete technical support, business support and related consulting services (as described in the agreement) in exchange for 100% of the net profits (as defined in the agreement) of JXHT. The agreement does not provide that SOU300 WFOE is responsible for the debts of JXHT. The term of the Technology Consultancy and Service Agreement began on August 1, 2014 and lasts for ten years, unless earlier terminated as provide in the agreement. The term of the agreement may be extended at SOU300 WFOE’s discretion prior to the expiration thereof;
- (2) a Power of Attorney under which the shareholders of JXHT have vested their collective voting control over JXHT to SOU300 WFOE;
- (3) an Option Agreement under which the shareholders of JXHT have granted to SOU300 WFOE the irrevocable right and option to acquire all of their equity interests in JXHT, subject to applicable PRC laws and regulations. The term of the Option Agreement began on August 1, 2014 and lasts for ten years, but may be renewed at SOU300 WFOE’s election; and
- (4) a Share Pledge Agreement under which the owners of JXHT have pledged all of their equity interests in JXHT to SOU300 WFOE to guarantee JXHT’s performance of its obligations under the Exclusive Technology Consultancy and Service Agreement.
- (5) a Business Operation Agreement under which SOU300 WFOE provides guidance and instructions on JXHT’s daily operations and financial affairs. SOU300 WFOE has the right to appoint senior executives of JXHT. The shareholders of JXHT must appoint the candidates recommended by SOU300 WFOE as their representatives on JXHT’s board of directors. The term of the Business Operation Agreement began on August 1, 2014 and lasts for ten years, but may be renewed at SOU300 WFOE’s election.

JXHT is in the process to register its share pledge with local Administration of Industry and Commerce.

As a holding company with no business other than holding equity interest of our operating subsidiary, SOU300 WFOE, we rely principally on dividends to be paid by SOU300 WFOE. SOU300 WFOE, being the exclusive service provider to JXHT, relies on the service fees to which it is entitled from JXHT. Pursuant to the Exclusive Technology Consultancy and Service Agreement between SOU300 WFOE and JXHT, SOU300 WFOE has the right to collect 100% of the net profits of JXHT.

On April 13, 2015, the Company implemented a reverse share split on a two to one ratio, pursuant to which 2,020,000,006 issued and outstanding shares of common stock were combined into 1,010,000,007 shares of common stock.

SOU 300 Group Holding Company Enters Into Acquisition Agreements with YishuiLihua Oil Co., Ltd., Shanghai Minnan Wood Co., Ltd., PutianHuanqiu Wood Co., Ltd. and Runjet Trading Co., Limited

VIE-YSLH

Acquisition of YSLH

On June 30, 2015, Sou 300 Group Holding Company (OTC: SOUG) (the “Company”), QuanSou 300 (Beijing) Technology Co., Ltd. (“SOU300 WFOE”), YishuiLihua Oil Co., Ltd. (“YSLH”) and Mr. Zhang Fuli, the sole shareholder and legal representative of YSLH, entered into an acquisition agreement, pursuant to which, the Company agreed to issue 6,000,000 shares to Mr. Zhang Fuli in exchange for its acquisition of effective control of the 100% equity interests in YSLH subject to terms and conditions under the acquisition agreement, through the execution of YSLH VIE Agreements (as defined below) among SOU300 WFOE, YSLH and Mr. Zhang Fuli.

YSLH VIE Agreements

On June 30, 2015, SOU300 WFOE and YSLH and Mr. Zhang Fuli entered into a series of agreements known as variable interest agreements (the “YSLH VIE Agreements”) pursuant to which SOU300 WFOE has executed effective control over YSLH through these contractual arrangements. The YSLH VIE Agreements included:

- (1) An Exclusive Technology Consultancy and Service Agreement through which SOU300 WFOE is appointed the exclusive services provider to provide YSLH with complete technical support, business support and related consulting services (as described in the agreement) in exchange for 90% of the net profits (as defined in the agreement) of YSLH. The agreement does not provide that SOU300 WFOE is responsible for the debts of YSLH. The term of the Technology Consultancy and Service Agreement began on June 30, 2015 and lasts for five years, unless earlier terminated as provided in the agreement;
- (2) a Power of Attorney under which the shareholder of YSLH has vested his collective voting control over YSLH to SOU300 WFOE;
- (3) an Option Agreement under which the shareholder of YSLH has granted to SOU300 WFOE the irrevocable right and option to acquire all of their equity interests in YSLH, subject to applicable PRC laws and regulations. The term of the Option Agreement began on June 30, 2015 and lasts for five years;
- (4) a Share Pledge Agreement under which the owner of YSLH has pledged all of his equity interests in YSLH to SOU300 WFOE to guarantee YSLH’s performance

of its obligations under the Exclusive Technology Consultancy and Service Agreement; and

- (5) a Business Operation Agreement under which SOU300 WFOE provides guidance and instructions on YSLH's daily operations and financial affairs. SOU300 WFOE has the right to appoint senior executives of YSLH. The shareholder of YSLH must appoint the candidates recommended by SOU300 WFOE as his representatives on YSLH's board of directors. The term of the Business Operation Agreement began on June 30, 2015, and lasts for five years, but may be renewed at SOU300 WFOE's election.

Business of YSLH

YSLH was founded in Shandong province, PRC on March 11, 2008. YSLH mainly engages in selling certain oil products in PRC, including peanut oil, soybean oil, salad oil, aqueous coating, etc. Products of YSLH are mainly sold in Henan, Shandong, Jiangsu, Shanghai, Guangzhou, Anhui and other regions of PRC. The conducting of these businesses above mainly requires food circulation license, which YSLH has not obtained as to the time of this filing.

VIE-Minnan Wood

Acquisition of Minnan Wood

On June 30, 2015, the Company, SOU300 WFOE, Shanghai Minnan Wood Co., Ltd. ("Minnan Wood"), Ms. Ye Sulan and Mr. Ye Dehong, each holding 94% and 6% of equity interest in Minnan Wood respectively, entered into an acquisition agreement, pursuant to which, the Company agreed to issue 987,000 shares to Ms. Ye Sulan and 63,000 shares to Mr. Ye Dehong in exchange for its acquisition of effective control of the 100% equity interests in Minnan Wood subject to terms and conditions under the acquisition agreement, through the execution of Minnan Wood VIE Agreements (as defined below) among SOU300 WFOE, Minnan Wood, Ms. Ye Sulan and Mr. Ye Dehong.

Minnan Wood VIE Agreements

On June 30, 2015, SOU300 WFOE, Minnan Wood, Ms. Ye Sulan and Mr. Ye Dehong entered into a series of agreements known as variable interest agreements (the "Minnan Wood VIE Agreements") pursuant to which SOU300 WFOE has executed effective control over Minnan Wood through these contractual arrangements. The Minnan Wood VIE Agreements included:

- (1) An Exclusive Technology Consultancy and Service Agreement through which SOU300 WFOE is appointed the exclusive services provider to provide Minnan Wood with complete technical support, business support and related consulting services (as described in the agreement) in exchange for 90% of the net profits (as defined in the agreement) of Minnan Wood. The agreement does not provide that SOU300 WFOE is responsible for the debts of Minnan Wood. The term of the

Technology Consultancy and Service Agreement began on June 30, 2015 and lasts for five years, unless earlier terminated as provided in the agreement;

- (2) Power of Attorney under which the shareholders of Minnan Wood have vested their collective voting control over Minnan Wood to SOU300 WFOE;
- (3) Option Agreement under which the shareholders of Minann Wood have granted to SOU300 WFOE the irrevocable right and option to acquire all of their equity interests in Minnan Wood, subject to applicable PRC laws and regulations. The term of the Option Agreement began on June 30, 2015 and lasts for five years;
- (4) Share Pledge Agreement under which the owners of Minnan Wood have pledged all of their equity interests in Minnan Wood to SOU300 WFOE to guarantee Minnan Wood's performance of its obligations under the Exclusive Technology Consultancy and Service Agreement; and
- (5) a Business Operation Agreement under which SOU300 WFOE provides guidance and instructions on Minnan Wood's daily operations and financial affairs. SOU300 WFOE has the right to appoint senior executives of Minnan Wood. The shareholders of Minnan Wood must appoint the candidates recommended by SOU300 WFOE as their representatives on Minnan Wood's board of directors. The term of the Business Operation Agreement began on June 30, 2015, and lasts for five years, but may be renewed at SOU300 WFOE's election.

Business of Minnan Wood

Minnan Wood was founded in Shanghai, PRC on December 9, 1998. Minnan Wood mainly engages in importing quality logs from Africa, Southeast Asia, South America, North America and Russia, including Merbau, Africa ebony, Africa safflower pear, Indonesia saltree, Russian larch and Africa Moabi red cherry. Upon request of its customers, Minnan Wood also provides tailored processing and drying services to its imported logs. Products of Minnan Wood are mainly sold in Jiangsu province.

VIE-Putian Wood

Acquisition of Putian Wood

On June 30, 2015, the Company, SOU300 WFOE, PutianHuanqiu Wood Co., Ltd. ("Putian Wood"), Mr. Wu Jianhua and Mr. Wu Jianping, each holding 80% and 20% of equity interest in Putian Wood respectively, entered into an acquisition agreement, pursuant to which, the Company agreed to issue 2,000,000 shares to Mr. Wu Jianhua and 500,000 shares to Mr. Wu Jianping in exchange for its acquisition of effective control of the 100% equity interests in Putian Wood subject to terms and conditions provided in the acquisition agreement, through the execution of Putian Wood VIE Agreements (as defined below) among SOU300 WFOE, Putian Wood, Mr. Wu Jianhua and Mr. Wu Jianping.

Putian Wood VIE Agreements

On June 30, 2015, SOU300 WFOE, Putian Wood, Mr. Wu Jianhua and Mr. Wu Jianping entered into a series of agreements known as variable interest agreements

(the “Putian Wood VIE Agreements”) pursuant to which SOU300 WFOE has executed effective control over Putian Wood through these contractual arrangements. The Putian Wood VIE Agreements included:

- (1) An Exclusive Technology Consultancy and Service Agreement through which SOU300 WFOE is appointed the exclusive services provider to provide Putian Wood with complete technical support, business support and related consulting services (as described in the agreement) in exchange for 90% of the net profits (as defined in the agreement) of Putian Wood. The agreement does not provide that SOU300 WFOE is responsible for the debts of Putian Wood. The term of the Technology Consultancy and Service Agreement began on June 30, 2015 and lasts for five years, unless earlier terminated as provided in the agreement;
- (2) Power of Attorney under which the shareholders of Putian Wood have vested their collective voting control over Putian Wood to SOU300 WFOE;
- (3) an Option Agreement under which the shareholders of Putian Wood have granted to SOU300 WFOE the irrevocable right and option to acquire all of their equity interests in Putian Wood, subject to applicable PRC laws and regulations. The term of the Option Agreement began on June 30 2015 and lasts for five years;
- (4) a Share Pledge Agreement under which the owners of Putian Wood have pledged all of their equity interests in Putian Wood to SOU300 WFOE to guarantee Putian Wood’s performance of its obligations under the Exclusive Technology Consultancy and Service Agreement; and
- (5) a Business Operation Agreement under which SOU300 WFOE provides guidance and instructions on Putian Wood’s daily operations and financial affairs. SOU300 WFOE has the right to appoint senior executives of Putian Wood. The shareholders of Putian Wood must appoint the candidates recommended by SOU300 WFOE as their representatives on Putian Wood’s board of directors. The term of the Business Operation Agreement began on June 30, 2015, and lasts for five years, but may be renewed at SOU300 WFOE’s election.

Business of Putian Wood

Putian Wood was founded in Fujian Province, PRC on March 7, 2006. Putian Wood mainly engages in selling and processing spruce, hemlock spruce, cypress and Douglas fir imported from North Africa and Korean pine, larch and toothed oak imported from Russia as well as New Zealand pine imported from Southeast Asia. Products of Putian Wood are mainly sold in Eastern China. Putian Wood has the self-determination right of import and export within its business scope.

VIE-RUNJET

Acquisition of RUNJET

On June 30, 2015, the Company, SOU300 WFOE, Runjet Trading Co., Limited.(“RUNJET”) and Mr. Tu Xiaojun, the sole shareholder of RUNJET entered into an acquisition agreement, pursuant to which, the Company agreed to issue

27,000,000 shares to Mr. Tu Xiaojun in exchange for its acquisition of effective control of the 100% equity interests in RUNJET subject to terms and conditions provided in the acquisition agreement, through the execution of RUNJET VIE Agreements (as defined below) among SOU300 WFOE, RUNJET and Mr. Tu Xiaojun.

RUNJET VIE Agreements

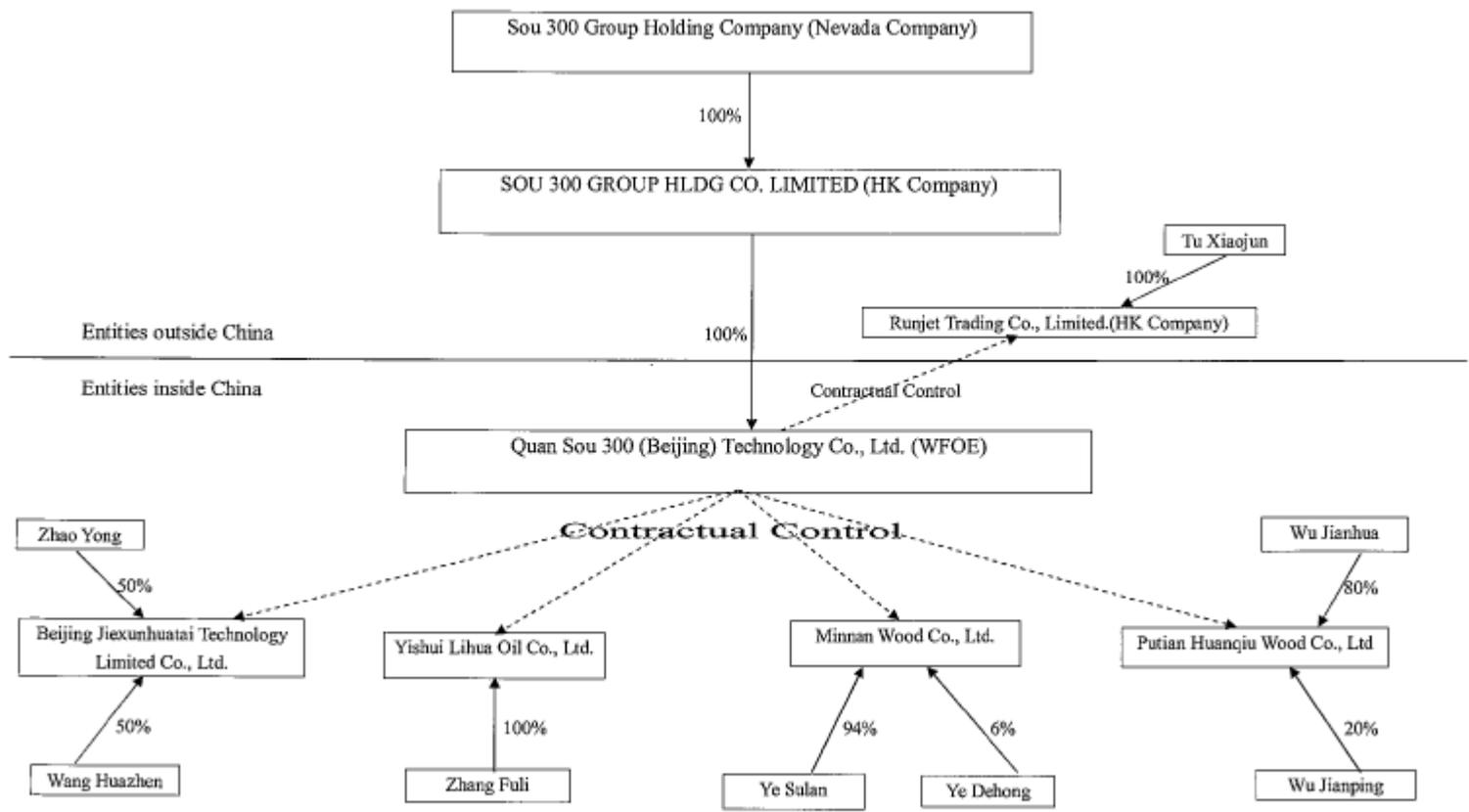
On June 30, 2015, SOU300 WFOE and RUNJET and Mr. Tu Xiaojun entered into a series of agreements known as variable interest agreements (the “RUNJETVIE Agreements”) pursuant to which SOU300 WFOE has executed effective control over RUNJET through these contractual arrangements. The RUNJET VIE Agreements included:

- (1) An Exclusive Technology Consultancy and Service Agreement through which SOU300 WFOE is appointed the exclusive services provider to provide RUNJET with complete technical support, business support and related consulting services (as described in the agreement) in exchange for 90% of the net profits (as defined in the agreement) of RUNJET. The agreement does not provide that SOU300 WFOE is responsible for the debts of RUNJET. The term of the Technology Consultancy and Service Agreement began on June 30, 2015 and lasts for five years, unless earlier terminated as provided in the agreement;
- (2) a Power of Attorney under which the shareholder of RUNJET has vested his collective voting control over RUNJET to SOU300 WFOE;
- (3) an Option Agreement under which the shareholder of RUNJET has granted to SOU300 WFOE the irrevocable right and option to acquire all of his equity interests in RUNJET, subject to applicable PRC laws and regulations. The term of the Option Agreement began on June 30 2015 and lasts for five years,;
- (4) a Share Pledge Agreement under which the owner of RUNJET has pledged all of his equity interests in RUNJET to SOU300 WFOE to guarantee RUNJET’s performance of its obligations under the Exclusive Technology Consultancy and Service Agreement; and
- (5) a Business Operation Agreement under which SOU300 WFOE provides guidance and instructions on RUNJET’s daily operations and financial affairs. SOU300 WFOE has the right to appoint senior executives of RUNJET. The shareholder of RUNJET must appoint the candidates recommended by SOU300 WFOE as his representatives on RUNJET’s board of directors. The term of the Business Operation Agreement began on June 30, 2015 and lasts for five years, but may be renewed at SOU300 WFOE’s election.

Business of RUNJET

RUNJET was founded in Hong Kong Special Administrative Region on February 7, 2012. RUNJET mainly engages in providing integrated high-end comprehensive trading services, including custom-made purchase, marketing, investment and financing, for both domestic and offshore clients, in particular, in the field of international logistics, quick clearance, domestic distribution, financial support, storage in Shenzhen and Hong Kong and order management. Such services cover various fields such as electronic products, communication products, car devices, security protection and internet devices.

The following flow chart illustrates our Company's organizational structure subsequent to the acquisitions described above:



Products and Services

Unless context indicates otherwise, reference to the “Company” throughout this report refers to SOU300 and its subsidiaries.

Internet Plus Strategy

The “Internet Plus” action plan was unveiled in the government work report that Premier Li Keqiang of the PRC delivered to national lawmakers on March 5, 2015. Internet Plus is the integration of the Internet and traditional industries through online platforms and IT technology. Internet plus can not only promote industrial transformation and upgrading, but also create new operational models for the industries.

The Company has formulated its own version of Internet Plus Strategy, which primarily consists of the two parts below: (i) to develop and build up a comprehensive internet platform to focus on advertising and marketing services to enterprises in traditional industries; and (ii) to align or establish a more strategic relationship with enterprises in traditional industries for a win-win outcome.

Internet Platform

We own our websitesou300.com through JXHT and we offer a Chinese language search platform for our users and customers.

Our services are designed to enable our users to find relevant information, including Chinese language web pages, news, images and multimedia files, through links provided on our websites. These services to our users are provided for free.

JXHT generates revenue from the sale of key search terms to the customers. For each and every key search term in the Company’s website, only one customer may purchase the one-year-term exclusive right for a price negotiated between the Company and the customer. Upon the payment of such price and within the one-year-term, the customer may log in and select its key search term, subsequent to which, any search in the Company’s website of such key search term will only bring up the advertisement designated by the customer. The payment of such price is non-refundable unless the customer chooses not to log in and select any key search term within the one-year-term. The customer may resell or grant right to use such key search terms to any party. The customers who purchase the key words include agency companies and individual agents. The Company also provides maintenance and technical supporting services for its customers with registered key search terms on the Company’s website, and charges a fixed fee on annual basis.

In 2008, we launched Internet search services on ourwww.sou300.com website and began offering personal computers online marketing services. We started our mobile

devices online marketing service in 2010. We developed and began to sale 3G intelligent mobile phone and relevant application software in 2012 to compliment and facilitate our online end-users for their mobile phone search. We began generating revenues from search and marketing service in 2009.

JXHT has an ICP license issued by Beijing bureau of Ministry of Industry and Information Technology (the “MIIT”) to engage in internet information service, with validity period from December 25, 2013 to December 25, 2018. JXHT obtained software enterprise certificate on August 27, 2012. JXHT also qualifies as a “High and New Technology Enterprise”, which enables it to enjoy a preferential enterprise income tax rate of 15% under the Enterprise Income Tax Law of the PRC (the “EIT LAW”) until December 5, 2016. A “High and New Technology Enterprise” certificate is effective for a period of three years and could be renewed for another three years. After that, an entity needs to re-apply for the “High and New Technology Enterprise” status in order to be able to enjoy the preferential tax rate of 15%.

Acquisitions of Enterprises in Traditional Industries

YSLH

On June 30, 2015, the Company, SOU300 WFOE, YSLH and Mr. Zhang Fuli entered into an acquisition agreement, pursuant to which, the Company shall issue 6,000,000 shares to Mr. Zhang Fuli in exchange for its acquisition of effective control of the 100% equity interests in YSLH subject to terms and conditions under the acquisition agreement, through the execution of YSLH VIE Agreements (as defined below) among SOU300 WFOE, YSLH and Mr. Zhang Fuli.

YSLH was founded in Shandong province, PRC on March 11, 2008. YSLH mainly engages in selling certain oil products in PRC, including peanut oil, soybean oil, salad oil, aqueous coating. Products of YSLH are mainly sold in Henan, Shandong, Jiangsu, Shanghai, Guangzhou, Anhui and other regions of PRC. The conducting of these businesses above mainly requires food circulation license, which YSLH has not obtained as to the time this filing.

Minnan Wood

On June 30, 2015, the Company, SOU300 WFOE, Minnan Wood, Ms. Ye Sulan and Mr. Ye Dehong, respectively holding 94% and 6% of stock equity in Minnan Wood, entered into an acquisition agreement, pursuant to which, the Company shall issue 987,000 shares to Ms. Ye Sulan and 63,000 shares to Mr. Ye Dehong in exchange for its acquisition of effective control of the 100% equity interests in Minnan Wood subject to terms and conditions under the acquisition agreement, through the execution of Minnan Wood VIE Agreements (as defined above) among SOU300 WFOE, Minnan Wood, Ms. Ye Sulan and Mr. Ye Dehong.

Minnan Wood was founded in Shanghai City, PRC on December 9, 1998. Minnan Wood mainly engages in importing quality log from Africa, Southeast Asia, South America, North America and Russia, with main varieties including but not limited to Merbau, Africa ebony, Africa safflower pear, Indonesia saltree, Russian larch and Africa Moabi red cherry. In addition, Minnan Wood provides processing and drying services for products purchased from Minnan Wood. Products of Minnan Wood are mainly sold in Jiangsu province.

Putian Wood

On June 30, 2015, the Company, SOU300 WFOE, Putian Wood, Mr. Wu Jianhua and Mr. Wu Jianping, respectively holding 80% and 20% of stock equity in Putian Wood, entered into an acquisition agreement, pursuant to which, the Company shall issue 2,000,000 shares to Mr. Wu Jianhua and 500,000 shares to Mr. Wu Jianping in exchange for its acquisition of effective control of the 100% equity interests in Putian Wood subject to terms and conditions under the acquisition agreement, through the execution of Putian Wood VIE Agreements (as defined above) among SOU300 WFOE, Putian Wood, Mr. Wu Jianhua and Mr. Wu Jianping.

Putian Wood was founded in Fujian Province, PRC on March 7, 2006. Putian Wood mainly engages in selling and processing spruce, hemlock spruce, cypress and Douglas fir imported from North Africa, Korean pine, larch and toothed oak imported from Russia, New Zealand pine and related tree species imported from Southeast Asia. Products of Putian Wood are mainly sold in Eastern China. Putian Wood has the self-determination right of import and export within its business scope.

RUNJET

On June 30, 2015, the Company, SOU300 WFOE, RUNJET and Mr. Tu Xiaojun, the sole shareholder of RUNJET entered into an acquisition agreement, pursuant to which, the Company issued 27,000,000 shares to Mr. Tu Xiaojun in exchange for its acquisition of effective control of the 100% equity interests in RUNJET subject to terms and conditions under the acquisition agreement, through the execution of RUNJET VIE Agreements (as defined above) among SOU300 WFOE, RUNJET and Mr. Tu Xiaojun.

RUNJET was founded in Hong Kong Special Administrative Region on February 7, 2012. RUNJET mainly engages in providing comprehensive supply chain services for both domestic and offshore clients including but not limited to international logistics, quick clearance, domestic distribution, financial support, storage in Shenzhen and Hong Kong and order management. Such services cover various fields such as electronic products, communication products, car devices, security protection and internet devices. RUNJET plans to expand to the fast-moving consumer goods, for example food, mother and baby, daily products and so on.

Intellectual Property

To protect our intellectual property, we rely on a combination of trademark, patent and trade secret laws as well as confidentiality agreements with contractors and others.

JXHT owns the following registered patent certificates in the PRC:

- (1) Invention of a Research and Registration Method of Key Words Based On Mobile Network, with Patent Number of ZL 2010 1 0201443.9, Certificate Number of 1135015 and a 20-year validity from June 17, 2010 to June 16, 2030;
- (2) Invention of Information Feedback System and Method Based On Broadband Network Information Terminal Message, with Patent Number of ZL 2010 1 0246633.2, Certificate Number of 1124081 and a 20-year validity from August 6, 2010 to August 5, 2030;
- (3) Utility Model of Self-identification Remote Mobile Phone Based On Triple Play, with Patent Number of ZL 2010 2 0531452.X, Certificate Number of 1725285 and a 10-year validity from September 16, 2010 to September 15, 2020;
- (4) Utility Model of Broadband Network Mobile Phone Obtaining Three-dimensional Images, with Patent Number of ZL 2010 2 0554082.1, Certificate Number of 1766263 and a 10-year validity from October 9, 2010 to October 8, 2020;
- (5) Utility Model of Bar Code Identification Network Mobile Phone, with Patent Number of ZL 2010 2 0547955.6, Certificate Number of 1922011 and a 10-year validity from September 29, 2010 to September 28, 2020;
- (6) Utility Model of a Public Transportation Positioning System Based On Broadband Mobile Phone, with Patent Number of ZL 2011 2 0368624.0, Certificate Number of 2230059 and a 10-year validity from October 5, 2011 to October 4, 2021; and
- (7) Invention of Searching Method of Accurate Queries Based on IP Address of Mobile Terminal, with Patent Number of ZL 2011 1 0135999.7, Certificate Number of 1474816 and a 20-year validity from May 25, 2011 to May 24, 2031.

JXHT owns the following registered computer software copyright registration certificates:

- (1) Search Engine Word Segmentation Software V1.0, completion date March 23, 2010 and unpublished, with Registration Number of 2010SR033920;
- (2) Search Engine Information Collection Software V1.0, completion date March 26, 2010 and unpublished, with Registration Number of 2010SR035241;
- (3) Search Engine Index Software V1.0, completion date April 19, 2010 and unpublished, with Registration Number of 2010SR035238;

- (4) Search Engine Semantic Correlation Analysis Software, completion date April 23, 2010 and unpublished, with Registration Number of 2010SR036136;
- (5) Search Engine Abstract Software V1.0, completion date May 30, 2010 and unpublished, with Registration Number of 2010SR036116;
- (6) Search Engine Information Processing Software V1.0, completion date June 2, 2010 and unpublished, with Registration Number of 2010SR036118;
- (7) Software of Commodities Circulation, Transaction and Distribution V1.0, completion date June 1, 2011 and first published on December 5, 2011, with Registration Number of 2012SR008681;
- (8) Mobile Phone Information Search Software V1.0, completion date June 22, 2011 and first published on July 7, 2011, with Registration Number of 2012SR051989;
- (9) Merchandise Interaction Software for Real Name Member V1.0, completion date July 4, 2011 and first published on December 8, 2011, with Registration Number of 2012SR008677;
- (10) Digital Media System Based On Wireless Communication Terminal V1.0, completion date July 13, 2011 and first published on August 16, 2011, with Registration Number of 2012SR066917;
- (11) Public Transportation Positioning Software Based On Mobile Communication Terminal V1.0, completion date July 13, 2011 and first published on September 14, 2011, with Registration Number of 2012SR050114;
- (12) Mobile Phone Window Platform Software V1.0, completion date December 6, 2011 and first published on January 2, 2012, with Registration Number of 2012SR052402; and
- (13) Mobile Phone Interactive Advertisements Player Software V1.0, completion date August 10, 2011 and first published on September 7, 2011, with Registration Number of 2012SR050111.

7) Facilities

JXHT Real Property and Lease

JXHT's business office is located at Room 1101, Floor 11, Longhui Building, Building 1, Nongguangnanli, Chaoyang District, Beijing, PRC. The lease is between Qin Yuan, a PRC citizen and JXHT, for an original term of one year commencing from December 30, 2013 to December 29, 2015 with a monthly rent of \$11,321 (RMB70,175).

SOU300 WFOE's office is located at Room 2013, Floor 2, Armed Police Printing Factory, Malianwa North Road 128, Haidian District, Beijing, with 269 square feet (25 square meters) of office space. The lease was between Beijing ChenguangJiye Property Management and Consultancy Co., Ltd. and SOU300 WFOE, for an original term of one year commencing from April 16, 2014 to April 15, 2015 with a annual rent of \$3,227 (RMB20,000). On April 14, 2015, the lease was extended from April 16, 2014 to April 15, 2016 with the same terms as the original lease.

YSLH Real Property and Lease

YSLH's office which is self-owned by YSLH is located at Xujiahu Economic Development Zone, Yishui County, Shandong Province. The area of YSLH is 100,000 square meters, among which, the area of buildings is 55,340 square meters. Buildings of YSLH mainly include a comprehensive office building, a large-scale workshop, a raw materials warehouse and a large-scale storehouse for finished products.

Real Property and Lease of Minnan Wood

Minnan Wood's business office and processing facility is located at No. 28, Chentai Road, Baoshan District, Shanghai, PRC, with an area of 10,700 square meters. The term of the current lease is 5 years commencing from September 30, 2014 to September 30, 2019 with a monthly rent of \$19,965 (RMB127,500).

Real Property and Lease of Putian Wood

Putian Wood's business office is located at Hushi Industrial Park, Xiuyu District, Putian City, Fujian Province, PRC, with an area of 600 square meters. The lease is between Putian Wood and an affiliate, PutianAshi Wood Co., Ltd., and as a consequence of such relationship, the lease shall be valid for an indefinite term for free.

Main processing place of Putian Wood is located at LuheHuadong International Wood Market, Huangjing Town, Taicang City, Jiangsu Province, PRC, with an area of approximately 13,333.4 square meters, including 8,000 square meters of workshop. The lease is between Putian Wood and Huadong International Wood Market, for an original term of 3 years commencing from December 26, 2008 to December 26, 2011 with a monthly rent of \$7,046 (RMB45,000). The lease can be renewed annually and has extended from December 26, 2011 to June 30, 2016 while the rent has not changed so far.

RUNJET Real Property and Lease

RUNJET's business office is located at Suite 1008, Prosperity Millennium Plaza, 663 King's Road, Hong Kong, with an area of 100 square meters. The lease is between RUNJET and Office Links Asia Limited, for an original term of 3 year commencing

from January 1, 2014 to December 31, 2016 with a monthly rent of \$3,132 (RMB20,000).

8) Officers, Directors, and Control Persons

Original Officers and Directors

Mr. Zhao Yong has served as a President of the Company since June 2010 and as Director of the Company since January 13, 2014. In addition, Mr. Zhao has served as a general manager for the Company's affiliated entity JXHT since 2008 to the present. He is fully responsible for the strategic planning, positioning and operational management of the Company and JXHT.

Mr. Gu Jinrong has served as a Director of the Company since June 2010 and served as CFO of the Company since January 13, 2014. In addition, Mr. Gu has served as a CTO for the Company's affiliated entity JXHT since 2008 to the present. He is fully responsible for technology research & development. Under the leadership of Mr. Gu, the Company and its affiliates have obtained almost a hundred of patents for inventions, utility models and software copyrights.

The following table sets forth the information as of June 30, 2015, concerning, except as indicated by the footnotes below:

- Each person whom we know beneficially owns more than 10% of our common stock or preferred shares;
- Applicable percentage ownership is based on 1,046,550,007 shares of common stock outstanding at June 30, 2015.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

| Name | Address | Percentage of Shares |
|----------------|--|----------------------|
| Zhao Yong (1) | Room1101, Floor 11, Longhui Building, Building1, Nongguangnanli, Chaoyang District, Beijing, PRC | 27.09% |
| Gu Jinrong (2) | Room1101, Floor 11, Longhui Building, Building1, Nongguangnanli, Chaoyang District, Beijing, PRC | 27.14% |

(1) Includes 49,000,000 shares of common stock held by Ms. Liu Yanping, Mr. Zhao Yong's spouse.

(2) Includes 49,500,000 shares of common stock held by Ms. Jin Lishi, Mr. Gu Jinrong's spouse.

9) Third Party Providers

Legal Counsel

Name: Ryan J. Nail

Firm: Nail Law Group

Address: P.O. Box 29316

San Francisco, CA 94129

Phone: (415) 488-5581

Email: rnail@naillawgroup.com

Accountant or Auditor

Name: Qun Ma

Firm: JXHT

Address: Room1101, Floor 11, Longhui Building, Building1, Nongguangnanli,
Chaoyang District, Beijing, PRC

Phone: +86-10-67351845

Email: sou300@sou300.com

Investor Relations Consultant: None

Other Advisor: None.

10) Issuer Certification

Certification of Chief Executive Officer

I, Zhao Yong certify that:

1. I have reviewed this 2015 quarterly report of Sou 300 Group Holding Company.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 25, 2015/s/ Zhao Yong

Zhao Yong
Chief Executive Officer
(Principal Executive Officer)

Certification of Chief Financial Officer

I, Gu Jinrong, certify that:

1. I have reviewed this 2015 quarterly report of Sou 300 Group Holding Company.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 25, 2015/s/ Gu Jinrong

Gu Jinrong
Chief Financial Officer
(Principal Accounting Officer)

SOU 300 GROUP HOLDING COMPANY**CONSOLIDATED BALANCE SHEETS**

(Amounts expressed U.S. Dollars (“USD”) unless otherwise stated)

| | Notes | <u>31 December 2014</u> | <u>30 June 2015</u> |
|--------------------------------------|-------|-------------------------|---------------------|
| | | <u>USD</u> | <u>USD</u> |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 15,751 | 7,607,384 |
| Account receivable, net of allowance | | | 18,781,801 |
| Goodwill | | - | 28,815,869 |
| Inventories, net | 3 | - | 33,753,763 |
| Amount due from a related party | 8 | 36,521 | 36,548 |
| Other current assets | 4 | 56,168 | 10,183,593 |
| Total current assets | | <u>108,440</u> | <u>99,178,958</u> |
| Non-current assets | | | |
| Fixed assets, net | 5 | 13,041 | 8,376,953 |
| Intangible assets, net | | 4,265 | 358,819 |
| Total non-current assets | | <u>17,306</u> | <u>8,735,772</u> |
| Total assets | | <u>125,746</u> | <u>107,914,730</u> |

SOU 300 GROUP HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Amounts expressed U.S.Dollars (“USD”) unless otherwise stated)

| | Notes | <u>31 December 2014</u> <u>USD</u> | <u>30 June 2015</u> <u>USD</u> |
|--|-------|---------------------------------------|-----------------------------------|
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Account payables and accrued liabilities | 6 | 57,533 | 37,180,686 |
| Customer advances and deposit | | 50,769 | 1,810,255 |
| Short term loan | | | 14,080,645 |
| Income tax payable | | 16,860 | 16,518 |
| Total current liabilities | | <u>125,162</u> | <u>53,088,104</u> |
| Total liabilities | | <u>125,162</u> | <u>53,088,104</u> |
| Equity | | | |
| Preferred shares, par value US\$0.001 per share, 10,000,000 shares authorized and no shares issued and outstanding as at December 31, 2014 and June 30, 2015 | | - | - |
| Ordinary shares, par value US\$0.001 per share, 2,100,000,000 shares authorized and 2,020,000,006 shares issued and 2,020,000,006 shares outstanding as at December 31, 2014 and 1,050,000,000 shares authorized and 1,010,000,007 shares issued and 1,046,550,007 shares outstanding as at June 30, 2015 | | 19,735 | 56,285 |
| Additional paid-in capital | | 127,549 | 54,915,999 |
| Accumulated losses | | (96,549) | (169,970) |
| Accumulated other comprehensive income | | 25,244 | 24,312 |
| Total equity | | <u>75,979</u> | <u>54,826,626</u> |
| Total liabilities and equity | | <u>703,315</u> | <u>107,914,730</u> |

The accompanying notes are an integral part of the consolidated financial statements.

SOU 300 GROUP HOLDING COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts U.S. Dollars (“USD”) unless otherwise stated)

| | Notes | 2014 Q2 | 2015 Q1 | 2015 Q2 |
|--|-------|------------------|---------------|-----------------|
| | | USD | USD | USD |
| | | (pro forma) | | |
| Revenues | | 132,052 | 81,603 | 9,828 |
| Operating costs and expenses: | | | | |
| Cost of revenue | | 42,131 | 11,180 | |
| Selling, general and administrative expenses | | 15,922 | 13,418 | 456 |
| Research and development expenses | | 88,089 | 45,107 | 20,710 |
| Total operating costs and expenses | | 462,368 | 69,705 | 21,166 |
| Operating loss | | (146,142) | 11,898 | (11,338) |
| Other income/(expenses): | | | | |
| Interest income | | (139) | 24 | |
| Others, net | | | 708 | (2) |
| Total other income/(expenses) | | 2,447 | 732 | (2) |
| (Loss)/income before income tax | | (14,229) | 12,630 | (11,340) |
| Income tax expense | 7 | 1,716 | | 244 |
| Net loss | | (15,945) | 12,630 | (11,584) |
| Basic and diluted earnings/(loss) per share for ordinary shares (expressed in RMB per share) | | (0.000008) | 0.000006 | (0.000011) |
| Basic and diluted weighted average number of ordinary shares outstanding | | 2,020,000,006 | 2,020,000,006 | 1,046,550,007 |
| Other comprehensive income/(loss), net of tax | | 108 | 7 | (11) |
| Total comprehensive loss | | (15,837) | 12,637 | (11,595) |

The accompanying notes are an integral part of these consolidated financial statements.

SOU 300 GROUP HOLDING COMPANY**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts expressed U.S. Dollars (“USD”) unless otherwise stated)

| | 2014 Q2 | 2015 Q1 | 2015 Q1 |
|--|--------------------|----------------|-----------------|
| | USD | USD | USD |
| | (pro forma) | | |
| Cash flows from operating activities: | | | |
| Net loss | (15,945) | 12,630 | (11,584) |
| Adjustments to reconcile net loss to net cash generated from operating activities: | | | |
| Depreciation of fixed assets | 2,878 | 2,548 | 2,056 |
| Amortization of intangible assets | 152 | 152 | 152 |
| Changes in operating assets and liabilities: | | | |
| Amount due from a related party | (102) | (33) | 6 |
| Other current assets | 6,427 | 13,108 | 17 |
| Customer advances and deposits | (55,326) | 25,695 | (38,722) |
| Accounts payable and accrued liabilities | 6,735 | 6,013 | (2,216) |
| Net cash (used in)/generated from operating activities | (55,181) | 60,113 | (50,290) |

SOU 300 GROUP HOLDING COMPANY**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)***(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)*

| | 2014 Q2 | 2014 Q4 | 2015 Q1 |
|--|--------------------|----------------|----------------|
| | USD | USD | USD |
| | (pro forma) | | |
| Cash flows from investing activities: | | | |
| Net cash used in investing activities | | | |
| Cash flows from financing activities: | | | |
| Net cash generated from financing activities | - | - | - |
| Effect of exchange rate changes on cash and cash equivalents | 1,094 | (347) | (11) |
| Net (decrease)/increase in cash and cash equivalents | (54,087) | 59,766 | 50,301 |
| Cash and cash equivalents at beginning of the period | 102,818 | 15,751 | 75,517 |
| Cash and cash equivalents at end of the period | 48,731 | 75,517 | 25,216 |
| Supplemental disclosures: | | | |
| Interest paid | - | - | |
| Income tax paid | 1,716 | 357 | |

The accompanying notes are an integral part of these consolidated financial statements.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS

Sou 300 Group Holding Company (“SOU300” or the “Company”) is a Nevada corporation incorporated on June 24, 2010, and is quoted on the OTC Pink Market (“OTC Market”). Upon incorporation, the Company has 100,000,000 authorized common shares and 10,000,000 authorized preferred shares, with USD0.001 par value per share.

On June 25, 2010, the Company entered into a Share Exchange Agreement with Beijing Jiexunhuatai Technology Limited Co., Ltd. (“JXHT”), a PRC company mainly engaged in online search and marketing, sale of key search terms, development and sale of software and mobile phones in the PRC. Mr. Zhao Yong and Ms. Wang Huazhen each hold 50% equity interests of JXHT, respectively. Pursuant to the Share Exchange Agreement, the Company intends to acquire all of the equity interest of JXHT. JXHT was founded in Beijing, PRC on August 14, 2008 and mainly engages in online search and marketing, sale of key search terms, development and sale of software and mobile phones in the PRC.

On June 25, 2010, the Company issued 20,000,006 shares of common stock, USD0.001 par value per share, to fifty (50) non-U.S. persons who are senior management, employees or individual sales agents of JXHT, or their designated persons, for consideration for their continuous service and contribution to the Company (the “2010 Issuance”).

On May 23, 2013, the Company increased the number of the authorized common shares from 100,000,000 to 2,100,000,000. On June 5, 2013, the Company issued 2,000,000,000 shares of common shares to 671 persons (among which, 48 are original shareholders and 623 are new shareholders) who are senior management, employees or individual sales agents of JXHT, or their designated persons, in consideration for their continuous service and contribution to JXHT and the Company (the “2013 Issuance”).

Due to restrictions and limitations of relevant PRC laws and regulations, particularly in the field of foreign acquisition and foreign investment in the telecommunication industry, the Share Exchange Agreement with JXHT was not in compliance with such laws and regulations and the Company never applied with relevant government authorities in PRC for approval of the share exchange. As a result, JXHT never became a legitimate wholly-owned subsidiary of the Company. The Company and JXHT have determined the Share Exchange Agreement was never effective and the share exchange transaction contemplated by the Share Exchange never occurred.

To comply with these foreign ownership restrictions, the Company recently reorganized as described below. Through the reorganization, the Company operates its website and primarily provides services subject to such restriction in the PRC through JXHT, a VIE of the Company.

On August 21, 2014, the Company acquired SOU 300 GROUP HLDG CO. LIMITED (“SOU300 HK”), a holding company established by Mr. Hung, Hai-Chuan under Hong Kong laws, subsequent to which, SOU300 HK become a wholly-owned subsidiary of the Company. On July 11, SOU300 HK established a wholly foreign owned enterprise, QuanSou 300 (Beijing) Technology Co., Ltd. (“SOU300 WFOE”) in Haidian District, Beijing, PRC.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts expressed in U.S. Dollars (“US\$”) unless otherwise stated)

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

On August 1, 2014, SOU300 WFOE and JXHT and its shareholders entered into a series of agreements known as variable interest agreements (the “VIE Agreements”) pursuant to which SOU300 WFOE has executed effective control over JXHT through several contractual arrangements. The principal terms of the agreements are further described below:

- (1) an Exclusive Technology Consultancy and Service Agreement through which SOU300 WFOE is appointed the exclusive services provider to provide JXHT with complete technical support, business support and related consulting services (as described in the agreement) in exchange for 100% of the net profits (as defined in the agreement) of JXHT. The term of the Technology Consultancy and Service Agreement began on August 1, 2014 and lasts for ten years, unless earlier terminated as provide in the agreement. The term of the agreement may be extended at SOU300 WFOE’s discretion prior to the expiration thereof;
- (2) a Power of Attorney under which the shareholders of JXHT have vested their collective voting control over JXHT to SOU300 WFOE;
- (3) an Option Agreement under which the shareholders of JXHT have granted to SOU300 WFOE the irrevocable right and option to acquire all of their equity interests in JXHT, subject to applicable PRC laws and regulations. The term of the Option Agreement began on August 1, 2014 and lasts for ten years, but may be renewed at SOU300 WFOE’s election; and
- (4) a Share Pledge Agreement under which the owners of JXHT have pledged all of their equity interests in JXHT to SOU300 WFOE to guarantee JXHT’s performance of its obligations under the Exclusive Technology Consultancy and Service Agreement.

Pursuant to the Exclusive Technology Consultancy and Service Agreement between SOU300 WFOE and JXHT, SOU300 WFOE has the right to collect 100% of the net profits of JXHT. JXHT is subject to operating risks, which determine the variability of the Company’s interest in JXHT. Based on the contractual agreements, the Company consolidates JXHT as required by Accounting Standards Codification (“ASC”) topic 810 (“ASC 810”): Consolidation, because the Company holds all the variable interests of JXHT through its subsidiary, SOU300 WFOE (“Primary Beneficiary”).

For the convenience of the investors, pro forma financial statements, i.e. the Company consolidates JXHT, are presented since the beginning.

Basis of Accounting

The consolidated financial statements have been prepared in accordance with

United States generally accepted accounting principles (“U.S. GAAP”).The consolidated financial statements are unaudited.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and JXHT (the “Group”), although the company does not effectively control JXHT through the Primary Beneficiary since the beginning.

All inter-company transactions and balances between the Company and JXHT are eliminated upon consolidation.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Use of Estimation

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the period. Management evaluates the estimates, including those related to accounts receivable allowances, fair values of certain equity investments, and deferred tax valuation allowance, among others. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgements about carrying values of assets and liabilities. Actual results could differ from these estimates.

Comparative Information

Certain items in the consolidated financial statements have been reclassified to conform to the current year’s presentation to facilitate comparison.

Currency Translation for Financial Statements Presentation

These financial statements are presented in United States Dollars (“USD”) unless otherwise stated. The financial statements as of and for the period ended June 30, 2015 have been translated into USD at the noon buying rate in New York city on June 30, 2015 for cable transfers in RMB by the Federal Reserve Bank of New York of USD1.00 = RMB6.2. No representation is made that the RMB amounts could have been, or could be, converted into USD at that rate or at any other certain rates on June 30, 2015, or at any other dates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Combinations

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC topic 805 (“ASC 805”): Business Combinations. The purchase method of accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets and liabilities the Company acquired, based on their estimated fair values. The consideration transferred of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the

identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

In a business combination achieved in stages, the Company re-measures its previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business Combinations (continued)

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and noncontrolling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

On June 30, 2015, the Company agreed to issue 6,000,000, 1,050,000, 2,500,000 and 27,000,000 shares in exchange for its acquisition of effective control of the 100% equity interests in YishuiLihua Oil Co., Ltd., Shanghai Minnan Wood Co., Ltd., PutianHuanqiu Wood Co., Ltd., and Runjet Trading Co., Limited. (collectively “acquired companies”) respectively, subject to terms and conditions under the respective acquisition agreements.

The Company consolidated the balance sheets of acquired companies as of June 30, 2015.

Foreign Currency

The Company’s functional currency is the RMB. The Company’s subsidiaries and VIEs determine their functional currencies based on ASC topic 830 (“ASC 830”), *Foreign Currency Matters*. The Company uses the USD as its reporting currency. The Company uses the average exchange rate for the year and the exchange rate at the balance sheet date to translate its operating results and financial position, respectively. Any translation gains (losses) are recorded in other comprehensive income (loss). Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in earnings as a component of other income.

Segment Reporting

In accordance with ASC topic 280 (“ASC 280”), *Segment Reporting: Overall*, the Company’s chief operating decision makers rely upon consolidated results of operations when making decisions about allocating resources and assessing performance of the Company; hence, the Company has only one single operating segment. The Company does not distinguish between markets or segments for the purpose of internal reporting.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates fair value, and primarily consist of cash and investments in interest bearing demand deposit

accounts, time deposits, highly liquid investments and money market funds. All time deposits, money market funds and other highly liquid investments with original maturities of three months or less from the date of purchase are classified as cash equivalents.

Restricted cash

Restricted cash balances comprise cash in bank balances, which are restricted as to withdrawal or usage under the terms of certain contracts or under bank regulations.

Inventories

Inventories are stated at the lower of cost or market. Adjustments are made to write down excess or obsolete inventories to their estimated realizable values.

SOU 300 GROUP HOLDING COMPANY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) *(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Short-term investments

All highly liquid investments with original maturities of greater than three months, but less than 12 months, are classified as short-term investments. Investments that are expected to be realized in cash during the next 12 months are also included in short-term investments. The Company accounts for short-term investments in accordance with ASC subtopic 320 (“ASC 320”), *Investments - Debt and Equity Securities*. The Company classifies the short-term investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized.

The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company’s policy and ASC 320. When the Company intends to sell an impaired debt security or it is more-likely-than-not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have

occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security's amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Company does not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, the Company must determine whether or not it will recover its amortized cost basis. If the Company concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income.

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale investment is reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Realized gains or losses are included in earnings during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Long-term investments

In accordance with ASC subtopic 325-20 (“ASC 325-20”), *Investments-Other: Cost Method Investments*, for investments in an investee over which the Company does not have significant influence and which do not have readily determinable fair value, the Company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed the Company’s share of earnings since its investment. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment’s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

Investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC topic 323 (“ASC 323”), *Investments-Equity Method and Joint Ventures*. Under the equity method, the Company initially records its investment at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investment on the consolidated balance sheets. The Company subsequently adjusts the carrying amount of the investment to recognize the Company’s proportionate share of each equity investee’s net income or loss into earnings after the date of investment. The Company will discontinue applying the equity method if an investment (and additional financial supports to the investee, if any) has been reduced to zero. Under the conditions that the Company is not required to advance additional funds to an investee and the equity-method investment in ordinary shares is reduced to zero, if further investments are made that have a higher liquidation preference than ordinary shares, the Company would recognize the loss based on its percentage of the investment with the same liquidation preference, and the loss would be applied to those investments of a lower liquidation preference first before being further applied to the investments of a higher liquidation preference. The Company evaluates the equity method investments for impairment under ASC 323. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

Long-term held-to-maturity investments are measured in the same manner as short-term held-to-maturity investments.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements of Financial Instruments

Financial instruments are in the form of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, amounts due to and due from related parties, long-term investments, accounts payable and accrued liabilities, customer advances and deposits. The carrying amounts of these financial instruments, approximate their fair values because of their generally short maturities.

Research and Development Expenses

Research and development expenses consist primarily of personnel-related costs. The Company has expensed substantially all development costs incurred in the research and development of new products.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the related lease, as follows:

| | |
|------------------------|---|
| Electronic devices | - 3 years |
| Office equipment | - 5 years |
| Leasehold improvements | - over the shorter of lease terms or estimated useful lives of the assets |

All the fixed assets of the Group have an estimated residual value of 3% of the cost.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful life of fixed assets are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in earnings.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalized as

construction in progress. Construction in progress is transferred to specific fixed assets items and depreciation of these assets commences when they are ready for their intended use.

Interest costs are capitalized if they are incurred during the acquisition, construction or production of a qualifying asset and such costs could have been avoided if expenditures for the assets have not been made. Capitalization of interest costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Interest costs are capitalized until the assets are ready for their intended use.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

Intangible assets with finite lives are carried at cost less accumulated amortization. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives.

Intangible assets with an indefinite useful life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with ASC subtopic 350-30 (“ASC 350-30”), *Intangibles-Goodwill and Other: General Intangibles Other than Goodwill*.

Impairment of Long-Lived Assets Other Than Goodwill

The Company evaluates long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC topic 360 (“ASC 360”), *Property, Plant and Equipment*. When such events occur, the Company assesses the recoverability of the assets group based on the undiscounted future cash flow the assets group is expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the assets group plus net proceeds expected from disposition of the assets group, if any, is less than the carrying value of the assets group. If the Company identifies an impairment, the Company reduces the carrying amount of the assets group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. The Company uses estimates and judgments in its impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of would be reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Company recognizes revenue based on the following principles:

(1) Sale of mobile phones and spare parts

Revenue from the sale of mobile phones and spare parts is recognized when the significant risks and rewards of ownership of the mobile phones and spare parts have passed to the buyer, usually on delivery of the mobile phones and spare parts.

(2) Sale of key search terms

The Company generates revenue from the sale of key search terms to the customers. For each and every key search term in the Company’s website, only one customer may purchase the one-year-term exclusive right for a price negotiated between the Company and the customer. Upon the payment of such price and within the one-year-term, the customer may log in and select its key search term, subsequent to which, any search in the Company’s website of such key search term will only bring up the advertisement designated by the customer. The payment of such price is non-refundable unless the customer chooses not to log in and select any key search term within the one-year-term. The customer may resell or grant right to use such key search terms to any party. The customers who purchase the key words include agency companies and individual agents. Revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC topic 605 (“ASC 605”), *Revenue Recognition*.

(3) Search and marketing services

The Company launches internet search services on the Company’s website. The Company provides maintenance and technical supporting services for its customers with registered key search terms on the Company’s website, and charges a fixed fee on annual basis. Revenue is recognized when the specified performance criteria are met together with satisfaction of other applicable revenue recognition criteria as prescribed by ASC 605. Fees for such services are recognized as revenue on a pro-rata basis over the contracted service period.

SOU 300 GROUP HOLDING COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of Revenues

Cost of revenues consists primarily of sales taxes (mainly the output value-added tax) and surcharges, bandwidth costs, depreciation, content costs, payroll and related costs of operations.

In accordance with ASC 605-45, the Company includes the sales tax and surcharges incurred on its revenues from sale of key search terms and search and marketing services in cost of revenues.

Leases

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as capital leases as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Income Taxes

The Company recognizes income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. The Company records a valuation allowance against the amount of deferred tax assets that it determines is not more-likely-than-not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company applies the provisions of ASC topic 740 (“ASC 740”), *Income Taxes*, in accounting for uncertainty in income taxes. ASC 740-10 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company has elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2011, 2012 and 2013, the amounts of unrecognized tax benefits as well as interest and penalties associated with uncertainty in income taxes were insignificant.

Earnings Per Share (“EPS”)

The Company computes earnings per ordinary shares in accordance with ASC topic 260 (“ASC 260”), *Earnings Per Share*. Under the provisions of ASC 260, basic net income per share is computed using the weighted average number of ordinary shares outstanding during the period except that it does not include unvested ordinary shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potentially dilutive securities have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of stock options, restricted shares subject to forfeiture, and contracts that may be settled in the Company’s stock or cash. The dilutive effect of outstanding stock options and restricted shares is reflected in diluted earnings per share by application of the treasury stock method.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“US\$”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingencies

The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

When a loss contingency is not both probable and estimable, the Company does not record an accrued liability but discloses the nature and the amount of the claim, if material. However, if the loss (or an additional loss in excess of the accrual) is at least reasonably possible, then the Company discloses an estimate of the loss or range of loss, if such estimate can be made and material, or states that such estimate is immaterial if it can be estimated but immaterial, or discloses that an estimate cannot be made. The assessments of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involve complex judgments about future events. Management is often unable to estimate the loss or a range of loss, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including eventual loss, fine, penalty or business impact, if any.

Concentration of Risks

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash and amounts due from related parties.

PRC state-owned banks, such as ICBC and BOC, are subject to a series of risk control regulatory standards, and PRC bank regulatory authorities are empowered to take over the operation and management when any of those faces a material credit crisis. The Company does not foresee substantial credit risk with respect to cash and cash equivalents held at the PRC state-owned banks. Meanwhile, China does not have an official deposit insurance program, nor does it have an agency similar to what was The Federal Deposit Insurance Corporation (FDIC) in the U.S. In the event of bankruptcy of one of the financial institutions in which the Company has deposits or investments, it may be unlikely to claim its deposits or investments back in full.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“US\$”) unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Risks (continued)

Concentration of credit risk (continued)

Amounts due from related parties are typically unsecured, interest-free and repayable on demand. In evaluating the collectability of the amounts due from related parties balance, the Company considers many factors, including the related parties’ repayment history and their credit-worthiness. An allowance for doubtful accounts is made when collection of the full amount is no longer probable.

Business and economic risks

The Company participates in a dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company’s future financial position, results of operations or cash flows: changes in the overall demand for services and products; changes in business offerings; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in bandwidth suppliers; changes in certain strategic relationships or customer relationships; regulatory considerations; copyright regulations; and risks associated with the Company’s ability to attract and retain employees necessary to support its growth.

No customer generated greater than 10% of total revenues in any of the periods presented.

The Company’s operations could be adversely affected by significant political, economic and social uncertainties in the PRC.

Derivative Instruments

ASC topic 815 (“ASC 815”), *Derivatives and Hedging*, requires all contracts which meet the definition of a derivative to be recognized on the balance sheet as either assets or liabilities and recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in fair values of derivatives not qualified as hedges are reported in earnings. The estimated fair values of derivative instruments are determined at discrete points in time based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques. The fair value of the derivative instruments held by the Company was insignificant for all years presented.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

3. INVENTORIES

All of the inventories are finished goods. The provision for impairment of inventories provided at the year end of 2014 and June 30 2015 were USD74,890 and USD74,951, respectively.

4. OTHER CURRENT ASSETS

| | <u>31 December 2014</u> | <u>30 June 2015</u> |
|-----------------------------|-------------------------|---------------------|
| | <u>USD</u> | <u>USD</u> |
| Prepaid expenses | 12,512 | 6,391,181 |
| Receivables from tax bureau | | 1,367,928 |
| Other receivables | <u>43,656</u> | <u>2,424,484</u> |
| | <u>56,168</u> | <u>10,183,593</u> |

5. FIXED ASSETS

| | <u>31 December 2014</u> | <u>30 June 2015</u> |
|---------------------------|-------------------------|---------------------|
| | <u>USD</u> | <u>USD</u> |
| Electronic devices | 11,213 | 173,493 |
| Transportation facilities | | 352,456 |
| Production equipment | | 5,925,777 |
| Office equipment | <u>38,797</u> | <u>2,183,680</u> |
| | <u>50,010</u> | <u>8,635,406</u> |
| Accumulated depreciation | <u>(36,969)</u> | <u>(258,453)</u> |
| | <u>13,041</u> | <u>8,376,953</u> |

Depreciation expenses of the fixed assets were USD2,878, USD2,548 and USD2,056 for the periods of 2014 Q2, 2015 Q1 and 2015 Q2, respectively. The Company did not recognize impairment loss on fixed assets during the periods mentioned above.

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

6. ACCOUNT PAYABLES AND ACCRUED LIABILITIES

| | <u>31 December 2014</u> | <u>30 June 2015</u> |
|-------------------------------------|-------------------------|---------------------|
| | <u>USD</u> | <u>USD</u> |
| Accrued payroll and welfare | 8,994 | 14,877 |
| Account payable | | 21,275,757 |
| Accrued operation expenses | | 524 |
| Taxes other than income tax payable | 42,019 | 42,514 |
| Others | 6,520 | 15,847,014 |
| | <u>57,533</u> | <u>37,180,686</u> |

7. INCOME TAX

The PRC enterprises income tax (“EIT”) law applies uniform 25% rate for both domestic-invested and foreign-invested enterprises. However, enterprises that qualified as High and New Technology Enterprises (“HNTE”) are entitled to the preferential EIT rate of 15%. In 2010, the Company obtained the HNTE certificate which was effective retroactively from January 1, 2010 to December 31, 2012. Thus the Company should be eligible for a preferential EIT rate of 15% retroactively from January 1, 2010 to December 31, 2012. The Company is obligated to complete an annual self-assessment to confirm its continued compliance with the criteria for HNTEs in order to apply the preferential tax rate. The HNTE certificate is valid for three years and the HNTE status is subject to approval and renewal every three years after the initial three-year term. In 2013, the Company has obtained the renewal HNTE which are effective from January 1, 2013 to December 31, 2015. Therefore, the income tax rate used for the current income tax calculation and recognition of deferred income tax expense is 15% in 2014.

Income tax expenses are as follows:

| | <u>2014 Q2</u> | <u>2015 Q1</u> | <u>2015 Q2</u> |
|-----------------------------|----------------|----------------|----------------|
| | <u>USD</u> | <u>USD</u> | <u>USD</u> |
| | (pro forma) | | |
| Current income tax expense | 1,716 | | 244 |
| Deferred income tax expense | - | - | - |
| | <u>1,716</u> | | <u>244</u> |

SOU 300 GROUP HOLDING COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts expressed in U.S. Dollars (“USD”) unless otherwise stated)

7. INCOME TAX (CONTINUED)

The following table sets forth the reconciliation between the PRC’s statutory income tax rate and the actual effective tax rate for the Company:

| | 2014 Q2 | 2015 Q1 | 2015 Q2 |
|---|-------------|---------|----------|
| | USD | USD | USD |
| | (pro forma) | | |
| (Loss)/income before income tax | (14,229) | 12,630 | (11,340) |
| Expected taxation as PRC EIT statutory rate | (3,557) | 3,158 | (2,835) |
| Effect of tax holidays | 1,423 | (1,263) | 1,134 |
| Tax losses not recognized | 2,134 | - | 1,701- |
| Expenses not deductible | 169 | 89 | |
| Others | 1,547 | (1,984) | 244 |
| Taxation for the year | 1,716 | 0 | 244 |
| Effective tax rate | -12.06% | 0% | -2.15% |

8. AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party mainly represents the borrowing provided by the Group to Shandong Heze Sou300 Co., Ltd. owned by certain executives of the Group, which is unsecured and repayable on contract terms, and arose in the ordinary course of business.

9. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company entered into operating lease arrangements with expiration date at 31December 2015 relating to office facilities. Future minimum lease payments for non-cancellable operating leases as of June 30, 2015 are USD762 from July 2015 to December 2015.