**SOU 300 GROUP HOLDING COMPANY**
**CONSOLIDATED BALANCE SHEETS**
*(Amounts expressed U.S. Dollars ("USD") unless otherwise stated)*

| | Notes | 31 December 2014<br>USD | 31 December 2015<br>USD |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 15,751 | 4,865,078 |
| Account receivable, net of allowance | | | 11,797,494 |
| Goodwill | | - | 28,815,870 |
| Short term investments | | | |
| Inventories, net | 3 | - | 28,134,367 |
| Amount due from a related party | 8 | 36,521 | 33,730 |
| Other current assets | 4 | 56,168 | 8,297,300 |
| **Total current assets** | | **108,440** | **81,943,839** |
| **Non-current assets** | | | |
| Fixed assets, net | 5 | 13,041 | 7,094,705 |
| Intangible assets, net | | 4,265 | 343,285 |
| **Total non-current assets** | | **17,306** | **7,437,990** |
| **Total assets** | | **125,746** | **89,381,829** |

**SOU 300 GROUP HOLDING COMPANY**
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**
*(Amounts expressed U.S. Dollars ("USD") unless otherwise stated)*

| | Notes | 31 December 2014 USD | 31 December 2015 USD |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Account payables and accrued liabilities | 6 | 57,533 | 18,459,569 |
| Customer advances and deposit | | 50,769 | 894,843 |
| Short term loan | | | 13,476,797 |
| Income tax payable | | 16,860 | |
| **Total current liabilities** | | **125,162** | **32,831,209** |
| **Total liabilities** | | **125,162** | **32,831,209** |
| **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 December 31, 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 1,050,000,000shares authorized and 1,010,000,007 shares issued and 1,046,550,007shares outstanding as at December 31, 2015 | | 19,735 | 56,285 |
| Additional paid-in capital | | 127,549 | 54,915,999 |
| Accumulated losses | | (98,533) | 2,888,164 |
| Accumulated other comprehensive income | | (48,167) | (1,309,828) |
| **Total equity** | | **584** | **56,550,620** |
| **Total liabilities and equity** | | **125,746** | **89,381,829** |

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 | 2015 |
|---|---|---|---|
| | | USD | USD |
| **Revenues** | | **727,776** | **338,798,106** |
| Operating costs and expenses: | | | |
| Cost of revenue | | 323,930 | 332,788,469 |
| Selling, general and administrative expenses | | 98,935 | 1,368,063 |
| Research and development expenses | | 305,293 | 102,204 |
| **Total operating costs and expenses** | | **(728,158)** | **(334,258,735)** |
| **Operating income/(loss)** | | **(382)** | **4,539,371** |
| Other income/(expenses): | | | |
| Interest income | | 1,754 | 24 |
| Others, net | | (1,270) | (822,173) |
| **Total other income/(expenses)** | | 484 | (822,149) |
| **(Loss)/income before income tax** | | 102 | 3,717,222 |
| Income tax expense | 7 | (2,086) | 816,427 |
| **Net income/(loss)** | | **(1,984)** | **2,900,796** |
| Basic and diluted earnings/(loss) per share for ordinary shares *(expressed in RMB per share)* | | 0.000006 | 0.0022547 |
| Basic and diluted weighted average number of ordinary shares outstanding | | 2,020,000,006 | 1,286,578,774 |
| Other comprehensive income/(loss), net of tax | | (73,411) | (1,334,144) |
| **Total comprehensive income/(loss)** | | **(75,395)** | **1,566,652** |

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 | 2015 |
|---|---|---|
| | USD | USD |
| **Cash flows from operating activities:** | | |
| Net income/(loss) | (1,984) | 2,900,796 |
| Adjustments to reconcile net loss to net cash generated from operating activities: | | |
| Depreciation of fixed assets | 11,377 | 938,345 |
| Amortization of intangible assets | 695 | 604 |
| Changes in operating assets and liabilities: | | |
| Inventories | 5,152 | 5,619,395 |
| Restricted cash and time deposits | 164,018 | |
| Amount due from a related party | 218,789 | 1,494 |
| Account receivables | | 6,984,306 |
| Other current assets | 18,725 | 1,899,419 |
| Income tax payable | | (15,603) |
| Short term investments | | |
| Customer advances and deposits | (520,150) | (928,440) |
| Short term loan | | (85,607) |
| Accounts payable and accrued liabilities | 17,912 | (18,717,319) |
| **Net cash (used in)/generated from operating activities** | (85,466) | (1,402,610) |

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

| | 2014 | 2015 |
|---|---|---|
| | USD | USD |
| Acquisition of fixed assets | (1,780) | |
| Cash flows from investing activities | | |
| **Net cash used in investing activities** | (1,780) | |
| Cash flows from financing activities | | |
| **Net cash generated from financing activities** | | - |
| Effect of exchange rate changes on cash and cash equivalents | (73,901) | (1,330,232) |
| **Net (decrease)/increase in cash and cash equivalents** | (161,147) | (2,732,842) |
| Cash and cash equivalents at beginning of the period | 176,898 | 15,751 |
| **Cash and cash equivalents at end of the period** | **15,751** | **4,865,078** |
| **Supplemental disclosures:** | | |
| Interest paid | | |
| Income tax paid | 2,086 | 816,427 |

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, Quan Sou 300 (Beijing) Technology Co., Ltd. ("SOU300 WFOE") in Haidian District, Beijing, PRC.

**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").

***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.

## 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 December31, 2015 have been translated into USD at the noon buying rate in New York city on December 31, 2015 for cable transfers in RMB by the Federal Reserve Bank of New York of USD1.00 = RMB6.4778. 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 December 31, 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.

## 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., Putian Huanqiu 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 December 31, 2015 and income statement for the period of 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***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.

***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.

## 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.

## 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.

## 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.

## 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.

(4)Sale of wood

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

## 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.

## 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.

## 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.

## 3. INVENTORIES

All of the inventories are finished goods. The provision for impairment of inventories provided at the year end of 2014 and December 31 2015 were USD74,890 and USD71,731, respectively.

## 4. OTHER CURRENT ASSETS

| | 31 December 2014<br>USD | 31 December 2015<br>USD |
|---|---|---|
| Prepaid expenses | 12,512 | 3,683,894 |
| Receivables from tax bureau | | 1,969,427 |
| Other receivables | 43,656 | 2,643,979 |
| | 56,168 | 8,297,300 |

## 5. FIXED ASSETS

| | 31 December 2014<br>USD | 31 December 2015<br>USD |
|---|---|---|
| Electronic devices | 11,213 | 166,053 |
| Transportation facilities | | 337,340 |
| Production equipment | | 5,671,649 |
| Office equipment | 38,797 | 2,090,034 |
| | 50,010 | 8,265,076 |
| Accumulated depreciation | (36,969) | (1,170,371) |
| | 13,041 | 7,094,705 |

## 6. ACCOUNT PAYABLES AND ACCRUED LIABILITIES

| | 31 December 2014<br>USD | 31 December 2015<br>USD |
|---|---|---|
| Accrued payroll and welfare | 8,994 | 22,546 |
| Account payable | | 7,278,539 |
| Accrued operation expenses | | |
| Taxes other than income tax payable | 42,019 | 43,082 |
| Others | 6,520 | 11,115,402 |
| | 57,533 | 18,459,569 |

## 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:

| | 2014<br>USD | 2015<br>USD |
|---|---|---|
| Current income tax expense | 2,086 | 816,427 |
| Deferred income tax expense | | |
| | 2,086 | 816,427 |

## 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<br>USD | 2015<br>USD |
|---|---|---|
| (Loss)/income before income tax | 102 | 3,717,222 |
| Expected taxation as PRC EIT statutory rate | 26 | 929,306 |
| Effect of tax holidays | (10) | (1,357) |
| Tax losses not recognized | | (56,170) |
| Expenses not deductible | 667 | 88 |
| Others | 1,403 | (55,440) |
| Taxation for the year | 2,086 | 816,427 |
| Effective tax rate | 2045% | 21.96% |

## 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.