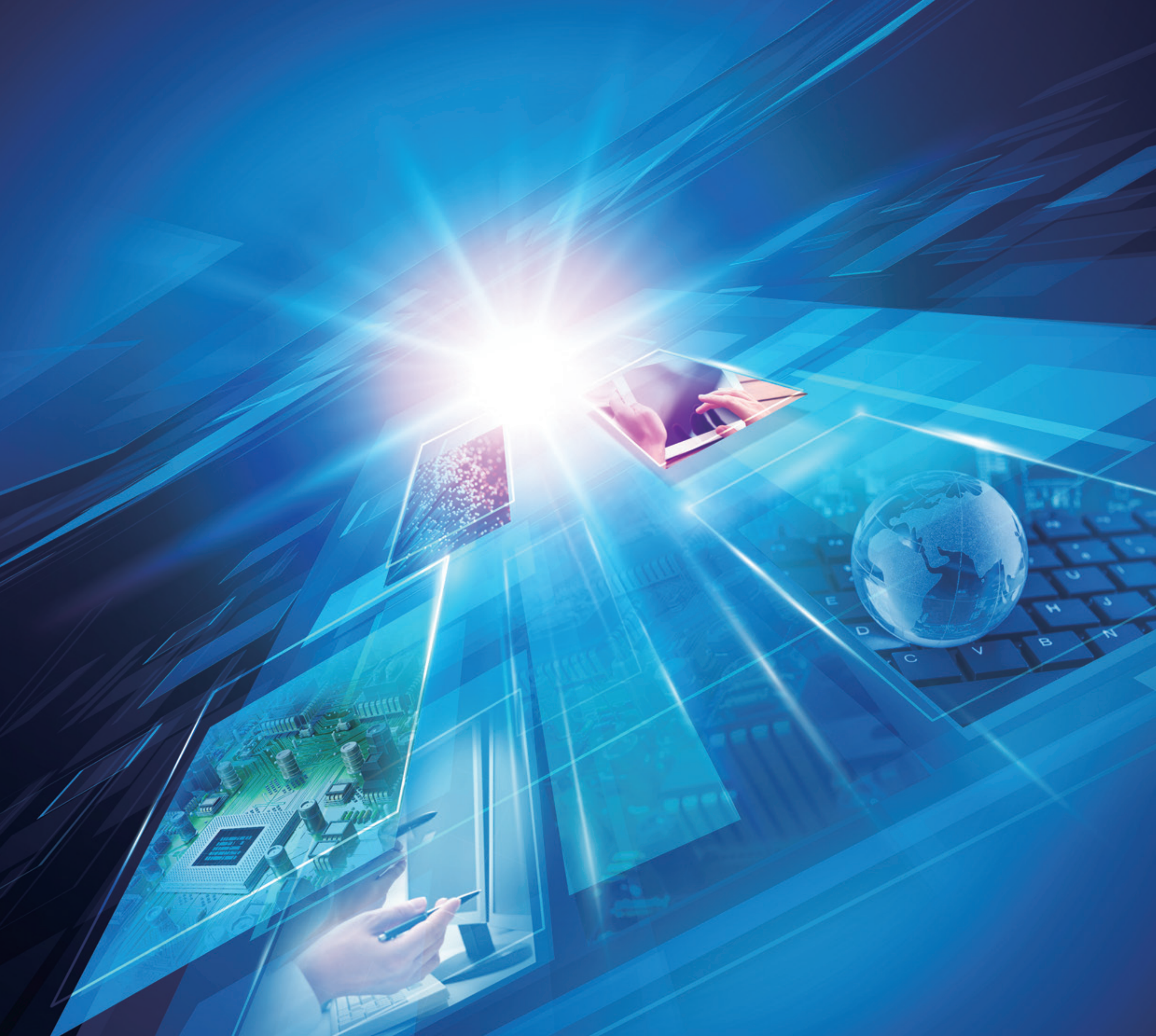
长虹佳华
CHANGHONG IT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Formerly known as China Data Broadcasting Holdings Limited 中華數據廣播控股有限公司)
(Incorporated in Bermuda with limited liability)
Stock Code : 8016



ANNUAL REPORT 2014

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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This report, for which the directors (the "Directors") of Changhong Jiahua Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	Unit 3701, 37/F, West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Bermuda principal share registrar and transfer office	Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 1712-1716, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong
Stock exchange	Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock code	8016
Website	www.changhongit.com.hk
E-mail address	LEE@changhongit.com.hk
Board of Directors	
Executive Directors	Mr. ZHAO Yong Mr. ZHU Jianqiu Mr. YU Xiao Mr. TANG Yun Mr. WU Xiang Tao Ms. SHI Ping Mr. XIANG Chao Yang (not being re-elected at the annual general meeting of the Company held on 16 May 2014)

CORPORATE INFORMATION

Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dong Feng Mr. CHENG Yuk Kin
Authorised representatives	Mr. ZHU Jianqiu (appointed on 18 August 2014) Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS Mr. Tang Yun (resigned on 18 August 2014)
Compliance officer	Mr. ZHU Jianqiu (appointed on 18 August 2014) Mr. Tang Yun (resigned on 18 August 2014)
Qualified accountant	Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS
Company secretary	Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS
Bermuda resident representative	Codan Services Limited
Audit Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. Robert IP Chun Chung Mr. SUN Dong Feng Mr. CHENG Yuk Kin
Remuneration Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. ZHU Jianqiu Mr. Robert IP Chun Chung Mr. SUN Dong Feng
Nomination Committee	Mr. ZHAO Yong (Chairman) Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dong Feng
Compliance Adviser	Platinum Securities Company Limited 21/F LHT Tower 31 Queen's Road Central Hong Kong
Auditor	SHINEWING (HK) CPA Limited 43/F, The Lee Gardens 33 Hysan Avenue, Causeway Bay Hong Kong

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHAO Yong, aged 52, joined the Company as Executive Director and Chairman in April 2013. Mr. Zhao serves in various positions within the Sichuan Changhong Electronics Group (i.e. Sichuan Changhong Electronics Group Company, Limited and its subsidiaries) and also served as the deputy mayor of Mianyang, Sichuan Province, the People's Republic of China (the "PRC") from June 2001 to June 2004. He holds a Master Degree in Mechanical Engineering and a Doctoral Degree in Engineering and Thermal Dynamics Engineering from Qinghua University in the PRC and has more than 22 years of experience in general management.

Mr. ZHU Jianqiu, aged 53, joined the Company as Executive Director and President in April 2013. Mr. Zhu is responsible for the overall operation and management of the Group (to be defined below). He obtained a Doctoral Degree in Economics from Renmin University and a Bachelor Degree in 1984 from Northeast University in the PRC and has more than 17 years of experience in information technology ("IT") industry management.

Mr. YU Xiao, aged 46, joined the Company as Executive Director and Chairman in November 2006. Mr. Yu has ceased to hold the Chairman position but remains as a Director. Mr. Yu is responsible for overseeing the strategies and directions of the Group. He holds a Bachelor Degree in Economics with major in National Economic Management from Sichuan University in the PRC and has more than 24 years of experience in financial and economic management.

Mr. TANG Yun, aged 49, joined the Company as Executive Director and Managing Director in November 2006 but had been re-designated as the Vice President last year. Mr. Tang has ceased to hold the senior management position but remains as a Director. Mr. Tang is responsible for the trading business of consumer electronic products and relevant parts and components of the Group. He obtained a Master Degree in Applied Physics from University of Electronic Science and Technology of China in the PRC and has more than 25 years of experience in engineering and marketing in the consumer electronics industry.

Mr. WU Xiangtao, aged 41, joined the Company as Executive Director and Deputy Managing Director in May 2008. Mr. Wu has ceased to hold the senior management position but remains as a Director. Mr. Wu is responsible for the strategies of the Group's trading business of consumer electronic products. He holds a Master Degree in Business Administration from Southwestern University of Finance and Economics and a Bachelor Degree in International Trade and Economics from Shandong University in the PRC and recently obtained a Master Degree in Business Administration from University of Glasgow, United Kingdom ("UK"). He has more than 18 years of experience in the consumer electronics industry.

Ms. SHI Ping, aged 52, joined the Company as Executive Director in May 2007. Ms. Shi is principally responsible for the investment and business merger of the Group. She obtained a Master Degree in Managerial Economics from Nanyang Technology University in Singapore, a Master Degree in Industrial Management Engineering from Chengdu University of Science and Technology and a Bachelor Degree in Chemical Engineering from Hunan University in the PRC and has more than 29 years experience in economics and engineering management.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. XIANG Chao Yang, aged 57, joined the Company as Executive Director in November 2006. Mr. Xiang is responsible for the PRC legal affairs of the Company. He obtained a Master Degree in Criminal Law of China from Sichuan University and a Bachelor Degree of Law from Southwest University of Political Science and Law in the PRC. He has more than 26 years of experience in law. Mr. Xiang has not been re-elected the position at the Annual General Meeting on 16 May 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan CHAN Ming Sun, aged 43, joined the Company as Independent Non-Executive Director in February 2007. Mr. Chan was appointed as the Chairman of Audit Committee and Remuneration Committee, also the member of Nomination Committee. He is an Associate Director of Go-To-Asia Investment Limited. He also holds the position of an independent non-executive director of Xiangyu Dredging Holdings Limited (stock code: 871) and Hao Tian Resources Group Limited (stock code: 474). He obtained his Bachelor Degree of Commerce in Accounting and Computer Information System from University of New South Wales, Australia. He is also a member of Hong Kong Institute of Certified Public Accountants and CPA, Australia. He has over 16 years of experience in investment and corporate finance.

Mr. Robert IP Chun Chung, aged 58, joined the Company as Independent Non-Executive Director in February 2007. Mr. Ip is the member of Audit Committee, Remuneration Committee and Nomination Committee. He is a practising solicitor in Hong Kong and is a non-executive director of Poly Property Group Co., Limited (stock code: 119). He also holds the position of an independent non-executive director of Value Convergence Holdings Limited (stock code: 821). He obtained the Bachelor Degree in Arts from University of Hong Kong and held a CPE Diploma and Diploma in Law from the College of Law, UK. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 33 years of experience in legal aspects.

Mr. SUN Dongfeng, aged 47, joined the Company as Independent Non-Executive Director in February 2007. Mr. Sun is the member of Audit Committee, Remuneration Committee and Nomination Committee. He is a senior partner of Guantao Law Firm as well as a legal advisor for a number of companies. He graduated from China University of Political Science and Law in the PRC, and obtained a Master Degree of Law in International Economics from the School of Law of University of Canberra, Australia. He has over 22 years of experience in legal aspects.

Mr. CHENG Yuk Kin, aged 39, joined the Company as Independent Non-Executive Director in November 2012. Mr. Cheng is a member of Audit Committee. He is an executive director of Ivory Capital Private Limited. He obtained his Bachelor Degree of Business Administration in Finance from Hong Kong University of Science and Technology and obtained a Master Degree of Business Administration from the George Washington University School of Business in United States of America ("USA"). He is also a member of American Institutional Certified Public Accountants. He has over 17 years of experience in corporate finance and audit.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LEE Wing Lun, aged 56, is the Qualified Accountant and Secretary of the Company and is responsible for the financial and accounting management and secretarial affairs of the Company. Also Mr. Lee is an independent non-executive director of Vinco Financial Group Limited (stock code: 8340). He graduated from Australian National University with a Bachelor Degree in Commerce and obtained a Master Degree of Corporate Governance and Postgraduate Diploma in Corporate Administration from Polytechnic University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the CPA Australia, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. He has over 20 years of working experience in auditing, accounting and finance matters including over 6 years in several audit firms and has been the financial controller of a trading group.

Mr. ZHAO Qilin, aged 40, is the Financial Controller of the Company and is responsible for the financial and accounting management and internal control of the Group. He holds a Bachelor Degree in Economics from Southwestern University of Finance and Economics in the PRC and has more than 8 years of experience in accounting and financial management.

Ms. SU Huiqing, aged 46, is the Vice President of the Changhong IT Information Products Company, Limited ("Changhong IT") and is responsible for the management of human resources, operation and administrative of the Group. She holds a Bachelor Degree in Automation from Shanghai Jiaotong University and has more than 23 years of experience in business development in the IT industry.

Mr. DONG Qiang, aged 42, is the Vice President of the Changhong IT, and is responsible for Group's IT consumer products distribution business. He holds a Bachelor Degree in Electric Automatization from Hebei Polytechnic University and has more than 17 years of experience in business development in the IT industry.

Mr. RONG Dong, aged 37, joined the Company as Executive Director and Assistant to Managing Director in June 2010 and had been the vice general manager of the Company. Mr. Rong has resigned the Director position and has been re-designated as the Assistant to President with effective on 15 April 2013. Mr. Rong is responsible to assist the President the management of the IT product distribution business in Southeast Asia and Hong Kong and other business of the Group. He obtained a Master Degree of Business Administration in Industrial Management from Sheffield Hallam University in UK and Diploma in Economics and Trade English from Hunan Institute of Engineering in the PRC and has more than 16 years experience in operation management.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The Company and its subsidiaries (the "Group") have pursued an aggressive expansion in business operations in the year 2014 against the slow recovery of the global economy and the unstable regional economic and political environments.

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2014 was approximately HK$18,152.71 million. This was due to the combination of revenue generated by the Group's trading business of consumer electronic products and the IT consumer and corporate product distribution business.

- Profit for the year ended 31 December 2014 was approximately HK$193.30 million and total comprehensive income for the year ended 31 December 2014 was approximately HK$185.79 million. This was mainly due to the IT consumer and corporate products distribution business.

BUSINESS REVIEW

In 2014, the global economy saw a slow recovery and the growth of the economy in the PRC slowed down amidst the complicated economic environment. The IT consumer market remained in doldrums marked by a sharp slowdown in the growth of the industry. Competition of the IT market was heating up against the backdrop of new technologies and new circumstances, leading to accelerated transformation of the industrial landscape. In light of the circumstances, the Group proactively responded to market challenges by enhancing the cooperation with core brands and devoting itself to exploring cooperation modes with new channels to ensure continuous and steady business growth, as well as actively expanding new businesses in big data and cloud computing and promoting its strategic transition into a company in the service industry with an objective to achieve business development and value enhancement.

In 2014, affected by the significant scale down of consumer electronic products, the Group recorded revenue of approximately HK$18,152.71 million, representing a decrease of 1.04% as compared with that in the same period of the last financial year. In 2014, the gross margin was 4.21%, representing a decrease of approximately 0.71% as compared with that in the same period of the last financial year, which was mainly due to intense market competition and the greater contribution from sale of product lines with low gross margin. In 2014, profit attributable to shareholders of approximately HK$185.11 million was recorded, representing an increase of approximately 3.94% as compared with that in the same period of the last financial year, and basic earnings per share amounted to HK7.48 cents, representing a decrease of HK0.50 cents as compared with HK7.98 cents in the same period of the last financial year.

CHAIRMAN'S STATEMENT

In 2014, the Group was dedicated to procedure and organisation optimisation, and made efforts to improve operational efficiency, as well as strictly controlled cash flows and the risk of collecting receivables, and cut down costs and expenses. In 2014, the Group strengthened management in terms of capital receipt and payment plan and trade receivables, thus accelerating capital turnover and having sufficient cash flows to develop business. In the meantime, the Group actively explored offshore and trade financing channels to reduce financing costs. Throughout the entire year of 2014, the Group strictly adhered to its budgetary control, and managed its expenditures closed to the level of the last financial year.

Changhong IT is the core business entity of the Group. In addition to IT consumer products and IT corporate products, Changhong IT is also engaged in the distribution of smart phones and self-developed products and the provision of IT technical support services.

On 5 June 2014, an acquisition of the entire issued share capital of Wide Miracle Limited, which held 10% of the equity interest of Changhong IT, was completed, details of which are set out in the circular and announcement of the Company dated 15 May 2014 and 22 April 2014, respectively. Since an acquisition of the remaining 90% equity interest of Changhong IT was completed on 8 January 2013, details of which are set out in the circular and announcement of the Company dated 12 December 2012 and 23 April 2012 respectively. Upon completion of such acquisition, the non-controlling interests in Changhong IT no longer exist and their interests are aligned with the shareholders of the Company. As such, all profit generated by all the subsidiaries of the Group belong to the owners of the Company thereafter.

The Company has four types of business after two times acquisition performed in year 2014 and 2013. Details of which are set out in note 9 to the consolidated financial statements.

IT consumer products distribution business: the turnover of this business was increased by 8.69% to HK$12,138.90 million as compared with the same period of last year. Due to keen competition in the market, the profit of it was decreased by 5.33% to HK$151.13 million. Amid the continuously lacklustre IT consumer product market, the Group took the initiative to expand the scope of cooperation with core suppliers in order to maintain its market share. The margin of the segment was 1.24%.

IT corporate products distribution business: the turnover of this business was increased by 14.83% to HK$5,268.55 million as compared with the same period of last year. Due to keen competition in the market, the profit of it was decreased by 5.42% to HK$287.63 million. To secure the stable market standing of the product lines, the Group actively expanded new business in big data and cloud computing and established user-oriented core data assets solutions in the areas of big data storage industry solutions and technology solutions by way of combining Original Equipment Manufacturer ("OEM") brand cooperation with accumulative experience in independent research and development. The margin of the segment was 5.46%.

Consumer electronic products business: the turnover of this business was decreased by 74.33% to HK$593.92 million as compared with the same period of last year. Due to contraction of business by the Group, the profit of it was decreased by 89.80% to HK$2.36 million. The margin of the segment was 0.40%.

Other business: the turnover of this business was decreased by 44.55% to HK$151.34 million as compared with the same period of last year. Due to the channel policy of suppliers, the profit of it was increased by 40.46% to HK$1.03 million. The margin of the segment was 0.68%.

Since 2014, economic growth in the PRC has been experiencing a slowdown and the IT market in the PRC has remained continuously sluggish. Facing the challenge of an unfavourable business environment, Changhong IT proactively introduced new product lines and expanded new channels to seek comprehensive benefits from marketing of its product mix; on the other hand, Changhong IT seized opportunities in emerging sectors such as cloud computing, mobile internet and the Internet of Things, increased investments in technologies, improved its business mode, and adhered to the strategic transition into service business, thus realising business transition and appreciation through service improvement.

On 30 July 2013, Shirley Oliver (mother of decedent Lauren Humphrey) issued a writ of summons ("Summons") to the Superior Court of California, County of Los Angeles, against eleven parties including Apex Digital, Inc. ("Apex Digital", which is wholly owned by Mr. David Ji Long Fen ("Mr. Ji"), a former executive director and an existing shareholder of the Company), Apex Digital, LLC (subsidiaries of the Company), (collectively known as the "Defendants"). The Defendants were claimed damages against Apex Digital, LLC for wrongful death based on strict product liabilities within the USA. The amount of damages was not determined. The Company has engaged a USA law firm to handle this matter. On 5 September 2014, a sale and purchase agreement was signed by the Company pursuant to which the Company agree to dispose the entire issued share capital of Apex Honor Resources Limited and Apex Digital, LLC ("Apex Group") to a third party amounted to HK$1. Since the Apex Group was inactive for a long period of time, the impact to the Company is insignificant. For further details, please refer to the announcement of the Company dated 5 September 2014.

To enhance the trading liquidity of the shares of the Company and to promote the Company's corporate image to public investors, the Company made an application to the Stock Exchange on 28 May 2014 for the Transfer of Listing in respect of the Company from the GEM Board to the Main Board. On 12 June 2014, the Company received a letter from the Stock Exchange which stated that the Listing Committee of the Stock Exchange decided to reject the application. Thereafter, a Review Hearing of Transfer of Listing to Main Board has been scheduled and been attended, the Listing Committee decided to uphold the decision after careful consideration. For further details, please refer to the announcements of the Company dated 28 May 2014 and 13 June 2014. Further updates will be provided by the Company from time to time as and when appropriate.

CHAIRMAN'S STATEMENT

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial and liquidity positions are healthy and stable. As at 31 December 2014, the aggregate outstanding borrowings of the Group were approximately HK$868.50 million (2013: HK$1,034.79 million) which were partially unsecured and interested bearing. Such fluctuation was due to the repayment of loan in the year ended 31 December 2014 as the Group's financial positions are continuously improving. The Group's cash and bank balances amounted to approximately HK$453.34 million, together with trade and bills receivables amounted to approximately HK$2,070.94 million. For the year under review, the Group's net current assets approximate to HK$1,252.99 million and the Group does not have any charges on its fixed assets (2013: Nil). The net gearing ratio (total net debt/total shareholders' equity) of our Group as at 31 December 2014 was 2.55 times. The management is confident that with proper funding arrangements, the Group's financial resources are sufficient to finance the daily operation.

The Group's monetary assets and liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. As the spread of exchange rate of Renminbi is locked and the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2014, the total number of the Group's staff was 1,223. The total staff costs (including directors) amounted to approximately HK$220.62 million for the year under review. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in the form of mandatory provident fund, and pays social pension insurance and housing provident fund for its employees in China in accordance with the local laws and regulations.

During the year under review, there was no outstanding share options granted or exercised as the share option scheme previously adopted by the Company had expired.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group has developed good relationship with its employees.

CHAIRMAN'S STATEMENT

CAPITAL STRUCTURE

The Group manages its capital structure to ensure optimal capital structure and shareholder returns, using the capital to promote its business development as ultimately increasing the revenue and margin in the IT consumer and corporate distribution business and consumer industry. Further capital may be used to increase its business diversification.

Capital of the Group comprises all components of equity, cash and bank balances and loan from major shareholder/related company.

The loan from major shareholder/related company is mainly for the purpose to support the daily operation of the Group.

SIGNIFICANT INVESTMENTS AND ACQUISITION

During the year ended 31 December 2014, the Company did not have any other significant investment and acquisition other than the acquisition of the entire issued share capital of Wide Miracle Limited as completed in June 2014. Details of which are set out in the announcement and circular of the Company dated 23 April 2012 and 15 May 2014, respectively.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

The Group will continue to consolidate its existing businesses and the IT distribution business while exploring new business opportunities that would enhance its businesses. No concrete plan for future investments is in place as at the date of this report.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Platinum Securities Company Limited ("Platinum Securities"), the compliance adviser of the Company, neither Platinum Securities nor its directors or employees or associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2014. Pursuant to the agreement dated 13 November 2012 entered into between Platinum Securities and the Company, Platinum Securities received and will receive fees for acting as the compliance adviser of the Company until the expiry of such agreement.

CHAIRMAN'S STATEMENT

OUTLOOK

In the next few years, the macro economy of the PRC is expected to maintain weak in momentum and downturn pressure is to mount. While the overall growth of the IT industry will slow down, great business potentials exist in niche fields of the IT market. With the significant changes in the existing industry landscape and business mode driven by new technologies of cloud computing, big data and mobile internet, corporate strategic transition is inevitable. In 2015, adhering to the principle of "exploring new ways, expanding the market territory through the internet platform, and offering a quality service to good partners", the Group will proactively explore new domains for added value to expand its development as it follows economic and industry trends and enhances its existing distribution business; and expand its business scope to cover various markets by establishing extensive and quality partnership networks and leveraging on the mode of online marketing. Supported by the transition mode of "platform based added value", the Group will realise business upgrade and value enhancement and become a professional provider in IT corporate products distribution and a comprehensive service provider in professional fields of big data and cloud computing; and forge its core competitiveness and accelerate the promotion of business strategic transition.

ZHAO Yong
Chairman

25 March 2015

CORPORATE GOVERNANCE REPORT

It has always been the Group's mission to enhance its corporate value, maintain its sustainable long-term development and create maximum returns for shareholders. In order to achieve the abovementioned objectives, the Company has established good corporate governance practices based on the principles of integrity, transparency, openness and efficiency, and have implemented and improved various policies, internal controls procedures and other management framework.

High corporate governance standard is built from the good corporate culture. Corporate governance principles and policies can only be applied efficiently, effectively and consistently when good corporate culture is the corner stone of the Company. The Board considers that maintaining high standard of corporate governance and business ethics will serve the long term interest of the Company and its shareholders. The goal of the Company is to achieve well-balanced development and focus on the relevant corporate, social and environmental responsibilities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules which sets out corporate governance principles and code provisions (the "Code Provisions") throughout the year ended 31 December 2014, the Company has complied with all the Code Provisions as set out under the CG Code, save for the deviations of Code Provisions A.6.7 and E.1.2 as provided below:

Code provision A.6.7

Pursuant to A.6.7 of the CG Code, the independent non-executive directors and non-executive directors should attend the general meetings in order to balancing the views of shareholders. However, due to other business commitment, Mr. Ip Chun Chung, Robert was unable to attend the annual general meeting of the Company held on 16 May 2014, while Mr. Sun Dongfeng was unable to attend the annual general meeting of the Company held on 16 May 2014 and the special general meeting of the Company held on 15 June 2014.

Code provision E.1.2

Pursuant to E.1.2 of the CG Code, the Chairman should attend the annual general meeting. However, Mr. Zhao Yong was unable to attend the annual general meeting held on 16 May 2014 due to other prior engagements.

COMMUNICATION WITH SHAREHOLDERS

At the annual general meeting, Company made substantial efforts to enhance communications with its shareholders, the Board always tried to fully address any questions raised by shareholders.

CORPORATE GOVERNANCE REPORT

The Company has established a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness. The Company published on its own website the procedures for shareholders to propose candidates for election as Director. Shareholders may send their enquiries requiring the Board's attention to the Company's secretary at the Company's registered address. Questions about the procedures for convening or putting forward proposals at an annual general meeting or special general meeting may also be put to the Company secretary by the same means. The Board members meet and communicate with shareholders and investors at annual general meetings and other general meetings. Corporate communications (such as quarterly, interim and annual reports, notices, circulars and announcements) are sent to shareholders in a timely manner and are available on the websites of the Company and the Stock Exchange.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Propose a Person for Election as a Director and Convene a Special General Meeting

According to Bye-law 85 of the Company's Bye-laws, a shareholder of the Company (other than the person to be proposed) duly qualified to attend and vote at an annual general meeting of the Company may propose a person for election as a director at such meeting by lodging a notice in writing signed by such shareholder of his intention to propose such person for election and a notice in writing signed by the person to be proposed of his willingness to be elected at the head office of the Company or the office of the Hong Kong branch share registrar of the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgement of such notices shall commence on the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

Other than election at annual general meetings, pursuant to Bye-law 58 of the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including election of directors, and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists, themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS AND BOARD MEETINGS

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting up performance targets, monitoring internal controls and financial reporting and supervising the management's performance, while day-to-day operations are delegated by the Board to the management. The Board operates in accordance with established practices (including those relating to reporting and supervision), and is directly responsible for formulating the Company's corporate governance guidelines. The Board also approves matters by resolutions in writing. Information of material issues, due notice of meeting and minutes of board meeting was sent to each of the directors for their information, comment and review.

The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any agreement on behalf of the Group.

The Board currently comprises 10 members and their positions are as follows:

Executive Directors

Mr. ZHAO Yong
Mr. ZHU Jianqiu
Mr. YU Xiao
Mr. TANG Yun
Mr. WU Xiangtao
Ms. SHI Ping
Mr. XIANG Chao Yang (not being re-elected at the annual general meeting of the Company held on 16 May 2014)

Independent Non-Executive Directors

Mr. Jonathan CHAN Ming Sun
Mr. Robert IP Chun Chung
Mr. SUN Dongfeng
Mr. CHENG Yuk Kin

The Directors have disclosed to the Company their positions held in other public companies, organizations or its associated. The information regarding their directorships in other public companies is set out in the biographies of directors and senior management on pages 5 to 7 of this annual report and on the Company's website. To ensure timely disclosure of any change of personal information, the Company has established a specific communication policy to handle the changes. There is no financial, business, family or other material relationships among members and all directors have no business relationship with the Group.

CORPORATE GOVERNANCE REPORT

The Company has arranged appropriate insurance company for directors' and officers' liabilities and the terms of such insurance will be reviewed annually.

The Company and its Directors (including independent non-executive Directors) entered into a fixed term service contract which is renewable automatically per annum. All directors are subject to retirement by rotation and be eligible to offer for re-election at forthcoming annual general meeting. The Company has also received acknowledgements from Directors of their responsibility for preparing the financial statements and a representation by the auditors in relation to their reporting responsibilities.

The Directors possess the relevant experience and qualifications and have exercised due care to handle the significant matters of the Group.

Board meetings are held at least once a quarter and during any given financial year when necessary. During the year under review, the Board met on 11 occasions and the details of the attendance of the directors at the respective meetings were as follows:

Name of Directors	Annual general meeting/ Special general meeting	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting
Executive Director					
Mr. ZHAO Yong	0/2	0/11	N/A	0/0	N/A
Mr. ZHU Jianqiu	2/2	10/11	N/A	N/A	0/0
Mr. YU Xiao	0/2	3/11	N/A	N/A	N/A
Mr. TANG Yun	2/2	10/11	N/A	N/A	N/A
Mr. WU Xiangtao	2/2	11/11	N/A	N/A	N/A
Ms. SHI Ping	1/2	8/11	N/A	N/A	N/A
Mr. XIANG Chao Yang (not being re-elected at the annual general meeting of the Company held on 16 May 2014)	0/2	2/11	N/A	N/A	N/A
Independent Non-Executive Director					
Mr. Jonathan CHAN Ming Sun	2/2	10/11	4/4	0/0	0/0
Mr. Robert IP Chun Chung	1/2	10/11	3/4	0/0	0/0
Mr. SUN Dongfeng	0/2	9/11	4/4	0/0	0/0
Mr. CHENG Yuk Kin	2/2	7/11	4/4	N/A	N/A

During the meetings, the Board discussed and formulated the overall strategies of the Group, reviewed and monitored the business performances. The quarterly, half-yearly and annual results and other significant matters were also discussed and decided.

The chairman of the Board invited the chairman of the Audit Committee, Remuneration Committee, Nomination Committee or their delegates to attend the annual general meeting and to response any enquires at the annual general meeting.

TRAINING

As part of an ongoing process of directors' training, the Directors are updated with latest developments regarding the Listing Rules and other applicable regulatory requirements from time to time to ensure compliance of the same by all directors. All directors are encouraged to attend external forum or training courses on relevant topics which may count towards continuous professional development training.

Pursuant to Code Provision A.6.5 of CG Code and Report, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in appropriate continuous professional development activities by attending training course on the topics related to corporate governance and regulations which provided by a hired law firm/ regulatory authorities or by reading materials relevant to the Company's business or to their duties and responsibilities. The training requirements for the Company's secretary according to Rule 5.15 of the GEM Listing Rules has been complied with for the year ended 31 December 2014.

CORPORATE GOVERNANCE REPORT

As part of the continuous professional development programme, directors participated in the various briefings as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of the directors. This is in addition to directors' attendance of meetings and review of papers and circulars sent by management. The participation by individual directors and the company secretary in the programme held during the year of 2014 is recorded in the table below.

	Reading regulatory updates	**Training courses provided by hired law firm/ regulatory authorities**
Executive Directors		
Mr. ZHAO Yong	✓	✓
Mr. ZHU Jianqiu	✓	✓
Mr. YU Xiao	✓	✓
Mr. TANG Yun	✓	✓
Mr. WU Xiangtao	✓	✓
Ms. SHI Ping	✓	✓
Mr. XIANG Chao Yang (not being re-elected at the annual general meeting of the Company held 16 May 2014)	N/A	N/A
Independent Non-executive Directors		
Mr. Jonathan CHAN Ming Sun	✓	✓
Mr. Robert IP Chun Chung	✓	✓
Mr. SUN Dongfeng	✓	✓
Mr. CHENG Yuk Kin	✓	✓
Company Secretary		
Mr. LEE Wing Lun	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE

The Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

During the year, Mr. ZHAO Yong was appointed as chairman and Mr. ZHU Jianqiu was appointed as president.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors is appointed for a twelve month term, which is renewable automatically with a fixed amount of remuneration per annum. None of the independent non-executive Directors has served the Group for more than nine years.

All independent non-executive Directors have confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers them to be independent.

BOARD COMMITTEES

The Company has established three committees: Audit Committee, Remuneration Committee and Nomination Committee. Independent non-executive directors are the majority of the committees. Each committee operates under its terms of reference which are available on the Company's website or can be obtained from the Company by written request.

AUDIT COMMITTEE

Membership

The members of the Audit Committee are Mr. Jonathan Chan Ming Sun (Chairman), Mr. Robert Ip Chun Chung, Mr. Sun Dong Feng and Mr. Cheng Yuk Kin. All members have several years of experience and appropriate professional qualifications to fulfill their duties.

Responsibilities

The primary responsibilities of the Audit Committee include, among other things, making recommendations to the Board on the appointment, re-appointment and removal of external auditors, approving the remuneration and terms of engagement of external auditors, reviewing and monitoring external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, developing and implementing policies on the engagement of external auditors to provide non-audit services, monitoring the financial statements and the completeness of the report and financial statements and overseeing the Company's financial reporting system and internal control procedures. The Audit Committee held regularly meetings at its discretion, directors and/or senior management, may be invited to attend the meeting for discussion.

During the year ended 31 December 2014, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited quarterly and interim results for the period ended 31 March 2014, 30 June 2014 and 30 September 2014 and the audited annual results for the year ended 31 December 2014, met with the external auditors to discuss such quarterly, interim and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

CORPORATE GOVERNANCE REPORT

– reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year, the Audit Committee held four meetings and the details of attendance was set out on page 17 of the report. The annual results for the year ended 31 December 2014 was reviewed by the Audit Committee.

REMUNERATION COMMITTEE

Membership

The members of the Remuneration Committee are Mr. Jonathan Chan Ming Sun (Chairman), Mr. Zhu Jianqiu, Mr. Robert Ip Chun Chung and Mr. Sun Dong Feng. Majority of members are independent non-executive directors.

Responsibilities

The primary responsibilities of the Remuneration Committee include, among other things, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance based remuneration, ensuring that no director or any of his/her associates is involved in deciding his/her own remuneration, and making recommendations to the Board on the Company's policy and structure for remuneration of employees, including salaries, incentive schemes and other stock option plans.

During the year ended 31 December 2014, the Remuneration Committee mainly performed the following duties:

– recommended the remuneration of Mr. Xiang Chao Yang to the Board; and

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2014.

During the year, the Remuneration Committee did not hold any meeting and the details of attendance was set out on page 17 of the report.

NOMINATION COMMITTEE

Membership

The members of Nomination Committee are Mr. Zhao Yong (Chairman), Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung and Mr. Sun Dong Feng. Majority of members are independent non-executive directors.

Nomination Procedure

The purpose of board diversity policy is to set out the basic principles to be followed to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance.

Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

Responsibilities

The primary responsibilities of the Nomination Committee include, among other things, reviewing on a regular basis the structure, size and composition of the Board, identifying individual's suitabilities and assessing the independence of independent non-executive directors.

During the year ended 31 December 2014, the Nomination Committee mainly performed the following duties:

– assessed the suitabilities of any candidate as a director, reviewed and recommended the appointment of any candidate;

– reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and

– reviewed the structure, size and composition of the Board during the year of 2014.

The Board has the authority to determine the appointment while the Nomination Committee acted as advisor. During the year, the Nomination Committee did not hold any meeting and the details of attendance was set out on page 17 of the report.

CORPORATE GOVERNANCE REPORT

REMUNERATION, APPOINTMENT AND ROTATION OF DIRECTORS

The remuneration of senior management consists of performance-linked monthly salary and performance-linked annual bonus. The performance-linked annual bonus is tied to the attainment of key performance indicators or targets. The remuneration of executive director is based on the Company's financial position in a fixed sum. The remuneration of independent non-executive director is determined by the Board according to the prevailing market conditions and the workload.

Currently, executive directors are mainly recommended by the substantial shareholders who have considerable years of experience and expertise in the consumer electronics industry and consumer and corporate IT industry, whereas for the independent non-executive directors, independence is most important as well as his/her experience and expertise in finance, law and management. The Nomination Committee, taking into consideration the Listing Rules and structure and composition of the Board, identifies and reviews individuals suitabilities with due care. The Nomination Committee makes recommendations to the Board for its consideration.

All newly-appointed directors of the Company receive a comprehensive induction of fiduciary duties of director to make sure that they have a good understanding of the responsibilities; fully aware of the listing rules, applicable laws and regulations, operation and governance policies of the Company. All newly-appointed directors of the Company are subject to re-election at the forthcoming annual general meeting after their appointment. Every director is subject to retirement by rotation and be eligible to offer for re-election at annual general meeting.

MANAGEMENT AND EMPLOYEES

The duty of the management is to implement the strategy and direction as determined by the Board and to take care of day-to-day operations of the Company. Management is adhered to certain commercial principles and ethics while performing their duties. The Company is continuing to improve the operating system and business processes and is monitoring its implementation.

Senior management emoluments for the year ended 31 December 2014

	Salaries and allowances *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Performance related incentive payments *HK$000*	Total *HK$'000*
Mr. Lee Wing Lun	541	16	60	617
Mr. Su Huiqing	568	70	3,530	4,168
Mr. Dong Qiang	469	63	3,032	3,564
Mr. Rong Dong	408	17	–	425
Mr. Zhao Qinlin	450	16	36	502
	2,436	182	6,658	9,276

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITOR

The Company engaged SHINEWING (HK) CPA Limited ("SHINEWING") as auditor of the Company. During the year, the services provided by Shinewing included the audit of consolidated financial statements of the Group and financial statements of its subsidiaries.

The remuneration of the audit service rendered by the auditor of the Group was mutually agreed in view of the scope of services in the total amount of HK$1,600,000 and the fee paid for other assurance services for the year amounted to HK$480,000.

The external auditor attended the annual general meeting to response any enquiries about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

INTERNAL CONTROL

The Board conducts regular reviews on the effectiveness of the internal control system to ensure that the operation of the Company is legal, the assets of the Company are safeguarded and the accuracy and reliability of the financial information that the Company relies on for the operation of its business or for the release to the public. The management is responsible for establishing and maintaining the internal control system for financial reporting. The Company has established a stringent internal control system for financial reporting to eliminate the risks of misstatement, omission and fraud in financial reporting. Meanwhile, with reference to external regulatory requirements, the Company's business development and the internal management procedures, the Company has reviewed the effectiveness of the internal control system for business strategy, finance, operations, marketing, legal compliance and other areas. The Company also considered to establish a comprehensive risk management system which integrates internal control and risk management system for the control of business operations with high risks. The Company also conducted assessment on its internal control system on an annual basis. The management believes that the internal control and financial reporting system was effective and provided reliable financial data in the preparation of financial statements in accordance with generally accepted accounting principles.

All material information related to the Company is disclosed the leadership of the Board together with the management performed relevant duties. The Company has performed an annual review of the effectiveness of the disclosure procedures. The Company's disclosure procedures were effective at a reasonable assurance level.

CONTINUOUS EVOLVEMENT OF CORPORATE GOVERNANCE

The Company will investigate the development of corporate governance practices with reference to the world's leading institutions, relevant regulations by the regulatory bodies and the expectation of the investors. The Company will also review and enhance the corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 37 to 122.

The Board does not recommend the payment of any dividend in respect of the year (2013: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group is as follows:

Results

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000*
Turnover	**18,152,710**	18,343,541	14,928,822	2,724,330	2,614,184
Cost of sales	**(17,388,303)**	(17,566,550)	(14,322,736)	(2,680,539)	(2,573,094)
Gross profit	**764,407**	776,991	606,086	43,791	41,090
Other income	**27,194**	35,634	18,612	226	1,945
Distribution and selling expenses	**(303,075)**	(306,246)	(231,991)	(8,451)	(7,356)
Administrative expenses	**(152,531)**	(141,894)	(91,548)	(15,662)	(10,607)
Finance costs	**(62,303)**	(108,314)	(60,855)	(6,449)	(4,697)
Profit before tax	**273,692**	256,171	240,304	13,455	20,375
Income tax expenses	**(80,396)**	(58,673)	(67,264)	(2,984)	(3,174)
Profit for the year	**193,296**	197,498	173,040	10,471	17,201

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)		
Profit for the year attributed to:					
Owner of the Company	**185,110**	178,090	154,728	10,471	17,201
Non-controlling interests	**8,186**	19,408	18,312	–	–
	193,296	197,498	173,040	10,471	17,201
Profit for the year	**193,296**	197,498	173,040	10,471	17,201
Other comprehensive (expense) income					
Items that may be reclassified subsequently to profit					
Exchange difference arising from translation of foreign operations	**(7,510)**	19,901	29,960	–	–
Other comprehensive (expense) income for the year, net of income tax	**(7,510)**	19,901	29,960	10,471	17,201
Total comprehensive (expense) income for the year	**185,786**	217,399	203,000	10,471	17,201
Total comprehensive income attributable to:					
Owners of the Company	**177,965**	196,001	181,692	10,471	17,201
Non-controlling interests	**7,821**	21,398	21,308	–	–
	185,786	217,399	203,000	10,471	17,201

REPORT OF THE DIRECTORS

Assets and Liabilities

	31 December				
	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)		
Total assets	**4,504,684**	4,453,309	4,521,963	516,615	566,370
Total liabilities	**(3,236,001)**	(3,370,412)	(3,656,465)	(468,524)	(535,105)
Total equity	**1,268,683**	1,082,897	865,498	48,091	31,265

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons thereof, are set out in notes 29 and 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTING SECURITIES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors as at the latest practicable date prior to the issue of this report, there is sufficient public float in the issued share capital of the Company pursuant to the GEM Listing Rules.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

At 31 December 2014, the Company has several reserve accounts available for distribution, in the amount of approximately HK$478.01 million, which may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 15.28% of the total sales for the year and sales to the largest customer included therein amounted to approximately 10.91%. Purchases from the Group's five largest suppliers accounted for approximately 77.90% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 27.10%.

Save as aforesaid, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31 December 2014.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. ZHAO Yong
Mr. ZHU Jianqiu
Mr. YU Xiao
Mr. TANG Yun
Mr. WU Xiangtao
Ms. SHI Ping
Mr. XIANG Chao Yang (not being re-elected at the annual general meeting of the Company held on 16 May 2014)

Independent non-executive directors:

Mr. Jonathan CHAN Ming Sun
Mr. Robert IP Chun Chung
Mr. SUN Dongfeng
Mr. CHENG Yuk Kin

In accordance with clause 86 of the Company's Bye-laws, Mr. Jonathan CHAN Ming Sun, Mr. ZHAO Yong, Mr. ZHU Jianqiu and Mr. YU Xiao will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical Details of the Directors and the senior management of the Group are set out on page 5 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

All Directors (including directors proposed for re-election at the forthcoming annual general meeting) entered into a fixed term service contract with the Company which is renewable automatically per annum.

Save as aforesaid, none of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within the term without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 31 December 2014, the interests or short positions of the Directors and chief executives of the Company in the ordinary shares of the Company (the "Shares"), underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Director	**Capacity**	**Number of Ordinary shares held**	**Approximate percentage of interest**
			%
Mr. Zhu Jianqiu ("Mr. Zhu") *(Note a)*	Interest in a controlled corporation	82,415,762 (L)	5.67

Note:

(a) Mr. Zhu is the sole shareholder of the Typical Faith Limited, which in turn is holding the 82,415,762 Shares.

Save as disclosed in this paragraph, as at 31 December 2014, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate. No options have been granted to the directors up to the date of this report.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 31 December 2014, the persons or companies (not being a Director or chief executive of the Company) whose interests in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed or were notified to the Company and the Stock Exchange pursuant to the positions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Name of substantial shareholder	Capacity	Class of shares	Number of shares held	Approximate percentage of interest in relevant class of shares *(Note a)* %
Sichuan Changhong Electric Co, Limited ("Sichuan Changhong")	Interest of controlled corporation and beneficial owner	Ordinary Preference	1,008,368,000 (L) *(Note b)* 1,115,868,000 (L) *(Note c)*	69.32 100.00
Changhong (Hong Kong) Trading Limited	Interest of controlled corporation and beneficial owner	Ordinary Preference	913,000,000 (L) *(Note d)* 1,115,868,000 (L) *(Note c)*	62.76 100.00
Fit Generation Holding Limited	Beneficial owner	Ordinary Preference	897,000,000 (L) 1,115,868,000 (L)	61.66 100.00
Sichuan Investment Management Company Limited *(Note e)*	Beneficial owner	Ordinary	83,009,340 (L)	5.70
Typical Faith Limited *(Note f)*	Beneficial owner	Ordinary	82,415,762 (L)	5.67

Notes:

(a) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 31 December 2014, which were 1,454,652,000 and 1,115,868,000, respectively.

(b) Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong (Hong Kong) Trading Limited and 897,000,000 Shares were held through Fit Generation Holding Limited, which is wholly owned by Changhong (Hong Kong) Trading Limited.

(c) 1,115,868,000 preference shares were held by Fit Generation Holding Limited, which is wholly owned by Changhong (Hong Kong) Trading Limited, which is a wholly-owned subsidiary of Sichuan Changhong.

(d) Of the 913,000,000 Shares, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation Holding Limited.

(e) Upon completion the acquisition of the entire issued share capital of Wide Miracle Limited on 5 June 2014, Sichuan Investment Management Company Limited ceased to be a connected person of the Company and its shareholding in the Company is counted towards public float.

(f) Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 31 December 2014, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTOR'S INTEREST IN A COMPETING BUSINESS

Sichuan Changhong is a substantial shareholder of the Company established in the PRC of which shares are listed on the Shanghai Stock Exchange. Sichuan Changhong is principally engaged in the wholesale business of consumer home electronics items under the name of "Changhong".

Save as disclosed in this paragraph, none of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the period under review.

REPORT OF THE DIRECTORS

STANDARD OF DEALINGS AND CODE OF CONDUCT FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Code of Conduct.

INVESTOR RELATIONS

Constitutional documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2014.

CONTINUING CONNECTED TRANSACTIONS

During the year 2014, the following continuing connected transactions were carried out by the Group.

(a) Master Supply Agreement

On 7 December 2012, the Company entered into framework agreement ("Master Supply Agreement") with Sichuan Changhong, our controlling shareholder, in relation to the supply of electronic products and components to Sichuan Changhong and its subsidiaries. For the year ended 31 December 2014, the transactions amount under the Master Supply Agreement is subject to a cap of HK$2,675.00 million (2013: HK$2,432.00 million). The transactions under the Master Supply Agreement are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

For the year ended 31 December 2014, the sale made under the Master Supply Agreement amounted to HK$43.76 million (2013: HK$1,226.34 million) in total. The Master Supply Agreement will expire on 31 December 2015.

(b) Master Purchase Agreement

On 7 December 2012, the Company entered into framework agreement ("Master Purchase Agreement") with Sichuan Changhong, our controlling shareholder, in relation to the supply of electronic products and components to Sichuan Changhong and its subsidiaries. For the year ended 31 December 2014, the transactions amount under the Master Purchase Agreement is subject to a cap of HK$1,231.00 million (2013: HK$1,119.00 million). The transactions under the Master Purchase Agreement are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

For the year ended 31 December 2014, the purchase made under the Master Purchase Agreement amounted to HK$19.68 million (2013: HK$1,017.61 million) in total. The Master Purchase Agreement will expire on 31 December 2015.

Confirmation of Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on terms not less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Confirmation from Auditor of the Company

The Board has received a confirmation from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year 2014, the above continuing connected transactions:

(i) have been approved by the Board;

(ii) have been entered into in accordance with the terms of the agreement governing the transactions; and

(iii) have not exceeded the cap amount announced by the Company.

AUDITOR

The financial statements of the Group for the year ended 31 December 2014 were audited by Messrs. SHINEWING who shall retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

ZHAO Yong
Chairman

Hong Kong
25 March 2015

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
CHANGHONG JIAHUA HOLDINGS LIMITED
長虹佳華控股有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Changhong Jiahua Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 122, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong
25 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	NOTES	**2014** **HK$'000**	2013 HK$'000
Turnover	7	**18,152,710**	18,343,541
Cost of sales		**(17,388,303)**	(17,566,550)
Gross profit		**764,407**	776,991
Other income	8	**27,194**	35,634
Distribution and selling expenses		**(303,075)**	(306,246)
Administrative expenses		**(152,531)**	(141,894)
Finance costs	10	**(62,303)**	(108,314)
Profit before tax		**273,692**	256,171
Income tax expenses	12	**(80,396)**	(58,673)
Profit for the year	14	**193,296**	197,498
Profit for the year attributable to:			
Owners of the Company		**185,110**	178,090
Non-controlling interests		**8,186**	19,408
		193,296	197,498
Earnings per share	16		
Basic		**7.48 cents**	7.98 cents
Diluted		**7.48 cents**	7.98 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 *HK$'000*	2013 *HK$'000*
Profit for the year	**193,296**	197,498
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit		
Exchange difference arising from translation of foreign operations	**(7,510)**	19,901
Other comprehensive (expense) income for the year, net of income tax	**(7,510)**	19,901
Total comprehensive (expense) income for the year	**185,786**	217,399
Total comprehensive income attributable to:		
Owners of the Company	**177,965**	196,001
Non-controlling interests	**7,821**	21,398
	185,786	217,399

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	NOTES	2014 HK$'000	2013 HK$'000
Non-current asset			
Plant and equipment	17	25,154	28,452
Current assets			
Inventories	18	1,542,822	1,831,192
Trade and bills receivables	19	2,070,943	1,465,166
Trade deposits paid	20	342,141	299,246
Prepayments, deposits and other receivables	21	69,324	135,404
Tax recoverable		965	1,962
Pledged bank deposits	22	241,131	191,951
Bank balances and cash	22	212,204	499,936
		4,479,530	4,424,857
Current liabilities			
Trade and bills payables	23	2,009,424	1,968,262
Other payables	24	153,172	190,400
Customer deposits	25	154,965	154,707
Amount due to ultimate holding company	26	2,767	3,219
Tax payable		37,714	4,961
Borrowings	27	868,500	530,740
		3,226,542	2,852,289
Net current assets		1,252,988	1,572,568
Total assets less current liabilities		1,278,142	1,601,020
Non-current liabilities			
Borrowings	27	–	504,051
Deferred income	28	9,459	14,072
		9,459	518,123
Net Assets		1,268,683	1,082,897

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	NOTES	2014 HK$'000	2013 HK$'000
Capital and Reserves			
Share capital	29	**36,366**	11,725
Convertible preference shares	29	**27,897**	46,947
Reserves		**1,204,420**	924,602
Equity attributable to owners of the Company		**1,268,683**	983,274
Non-controlling interests		**–**	99,623
Total equity		**1,268,683**	1,082,897

The consolidated financial statements on pages 37 to 122 were approved and authorised for issue by the Board of Directors on 25 March 2015 and are signed on its behalf by:

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital HK$'000	Convertible preference share HK$'000	Share premium HK$'000	Statutory reserve *(note i)* HK$'000	Merger reserve *(note ii)* HK$'000	Translation reserve HK$'000	Other reserve *(note iii)* HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2013	8,350	–	34,492	25,940	557,490	26,964	–	134,037	787,273	78,225	865,498
Profit for the year	–	–	–	–	–	–	–	178,090	178,090	19,408	197,498
Exchange differences arising on translation	–	–	–	–	–	17,911	–	–	17,911	1,990	19,901
Total comprehensive income for the year	–	–	–	–	–	17,911	–	178,090	196,001	21,398	217,399
Increase in share capital	3,375	–	131,625	–	–	–	–	–	135,000	–	135,000
Issue of convertible preference shares	–	46,947	1,623,649	–	–	–	–	–	1,670,596	–	1,670,596
Appropriation to statutory reserve	–	–	–	16,235	–	–	–	(16,235)	–	–	–
Merger reserve arising from common control combination	–	–	–	–	(1,805,596)	–	–	–	(1,805,596)	–	(1,805,596)
At 31 December 2013	11,725	46,947	1,789,766	42,175	(1,248,106)	44,875	–	295,892	983,274	99,623	1,082,897

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital HK$'000	Convertible preference share HK$'000	Share premium HK$'000	Statutory reserve *(note i)* HK$'000	Merger reserve *(note ii)* HK$'000	Translation reserve HK$'000	Other reserve *(note iii)* HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2014	11,725	46,947	1,789,766	42,175	(1,248,106)	44,875	–	295,892	983,274	99,623	1,082,897
Profit for the year	–	–	–	–	–	–	–	185,110	185,110	8,186	193,296
Exchange differences arising on translation	–	–	–	–	–	(7,145)	–	–	(7,145)	(365)	(7,510)
Total comprehensive (expense) income for the year	–	–	–	–	–	(7,145)	–	185,110	177,965	7,821	185,786
Issue of ordinary shares	5,591	–	305,285	–	–	–	–	–	310,876	–	310,876
Conversion of convertible preference shares	19,050	(19,050)	–	–	–	–	–	–	–	–	–
Appropriation to statutory reserve	–	–	–	2,988	–	–	–	(2,988)	–	–	–
Acquisition of non-controlling interests *(Note 34)*	–	–	–	–	–	–	(203,432)	–	(203,432)	(107,444)	(310,876)
At 31 December 2014	36,366	27,897	2,095,051	45,163	(1,248,106)	37,730	(203,432)	478,014	1,268,683	–	1,268,683

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

Notes:

(i) Statutory reserve

In accordance with the Articles and Association of the People's Republic of China (the "PRC") subsidiaries and the relevant laws and regulations applicable in the PRC, companies now comprising the Group established in the PRC are required to appropriate at least 10% of their statutory annual profits after tax determined in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of director of the respective PRC companies.

(ii) Merger reserve

The merger reserve represents the difference between the considerations and the assets and liabilities acquired under business combinations at the first date under common control.

(iii) Other reserve

The other reserve represents the difference between the consideration paid and the carrying values of non-controlling interests acquired during the year ended 31 December 2014. Details are set out in Note 34.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**273,692**	256,171
Adjustments for:		
Depreciation for plant and equipment	**8,747**	8,615
Gain on disposal of plant and equipment	**(138)**	(109)
Gain on disposal of subsidiaries	**(7,437)**	–
Interest income	**(7,996)**	(4,697)
Finance costs	**62,303**	108,314
Government subsidies	**(8,724)**	(16,526)
Impairment losses recognised on trade receivables	**25,124**	23,492
Reversal of allowance for trade receivables	**–**	(6,396)
Allowance for inventories	**–**	794
Reversal of allowance for inventories	**(3,599)**	(12)
Operating cash flows before movements in working capital	**341,972**	369,646
Decrease (increase) in inventories	**276,029**	(251,264)
(Increase) decrease in trade and bills receivables	**(634,331)**	416,034
(Increase) decrease in trade deposits paid	**(47,005)**	157,823
Decrease in prepayments, deposits and other receivables	**60,091**	27,461
Decrease in amount due to ultimate holding company	**(2,053)**	(99,172)
Increase (decrease) in trade and bills payables	**52,561**	(94,605)
(Decrease) increase in other payables	**(20,867)**	25,984
Increase (decrease) in customer deposits	**1,217**	(179,988)
Cash generated from operations	**27,614**	371,919
The PRC tax paid	**(40,826)**	(78,523)
Hong Kong Profits Tax refunded (paid)	**1,289**	(1,518)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(11,923)**	291,878

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 *HK$'000*	2013 *HK$'000*
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(49,180)**	(74,247)
Purchases of plant and equipment	**(5,840)**	(11,457)
Net cash outflow from disposal of subsidiaries *(Note 39)*	**(7)**	–
Interest received	**7,996**	4,697
Proceeds on disposal of property, plant and equipment	**315**	5,408
NET CASH USED IN INVESTING ACTIVITIES	**(46,716)**	(75,599)
FINANCING ACTIVTIES		
Repayment of loan	**(533,901)**	(621,785)
Interest paid	**(68,468)**	(103,291)
Guarantee fee	**(8,652)**	(5,023)
Government subsidies received	**4,216**	7,831
New loan raised	**328,830**	897,396
Repayment from a fellow subsidiary	**–**	69
Borrowings (repayment) on discounted bills with recourse	**49,463**	(160,003)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(228,512)**	15,194
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(287,151)**	231,473
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**499,936**	262,023
Effect of foreign exchange rate changes	**(581)**	6,440
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**212,204**	499,936

1. GENERAL INFORMATION

Changhong Jiahua Holdings Limited (the "Company") was incorporated in Bermuda with limited liability.

The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Unit 3701, 37/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is different from the functional currency of the Company, being United States dollars ("USD"). As the Company is a public company with the shares listed on the Stock Exchange with most of its investors located in Hong Kong, the directors consider that HK$ is preferable in presenting the operating result and financial position of the Group. Other than those subsidiaries established in PRC whose functional currency is Renminbi ("RMB"), the functional currency of the Company and other subsidiaries is USD.

Sichuan Changhong Electronic Co., Limited ("Sichuan Changhong"), a company incorporated in the People's Republic of China (the "PRC") and listed on Shanghai Stock Exchange has obtained the control over the board of directors of the Company since 2012. In the opinion of the directors, the ultimate holding company of the Company is Sichuan Changhong as at 31 December 2014 and the date of approval of these financial statements by the Board of the Company.

During the year ended 31 December 2013, the Group acquired 100% equity interest of Sufficient Value Group Limited ("Sufficient Value Group"), of which ultimate holding company is Sichuan Chonghong. The Group resulting from the above mentioned transaction is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations as if the group structure under the group reorganisation had been in existence since the date when they first came under common control of Sichuan Chonghong.

The Company is an investment holding company. The principal activities of the Group are set out in note 38 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The Group has applied amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities for the first time in the current year. The amendments to HKFRS 10 define an investment entity and introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtains funds management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity, the directors of the Company consider that the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]
Amendments to HKAS 1	Disclosure Initiative[2]
HKFRS 9 (2014)	Financial Instruments[4]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation[2]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[2]

[1] Effective for annual periods beginning on or after 1 July 2014. Early application is permitted.

[2] Effective for annual period beginning on or after 1 January 2016.

[3] Effective for annual periods beginning on or after 1 January 2017.

[4] Effective for annual periods beginning on or after 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Annual Improvements to HKFRSs 2010-2012 Cycle *(Continued)*

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle will have a material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in HKFRS 5. Besides, the amendments also clarify that changing the disposal method does not change the date of classification.

The amendments to HKFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to HKFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

The amendments to HKAS 19 clarify that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

HKAS 34 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'. The amendments to HKAS 34 clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2012-2014 Cycle will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designed as at fair value through profit or loss, HKFRS 9 requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previous, under HKAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 (2014) Financial Instruments *(Continued)*

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The amendments clarify the requirements when accounting for investment entities as well as provide relief in particular circumstances, which will reduce the costs of applying the Standards. Specifically, a parent entity that is a subsidiary of an investment entity is exempted from preparing consolidated financial statements. A parent entity which is also a subsidiary of an investment entity and hold interests in associates and joint ventures is exempted from applying equity method if it meets all the conditions stated in paragraph 4(a) of HKFRS 10.

Besides, the amendments clarify if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing investment-related services that relate to the investment entity's investment activities to the entity or other parties, it should consolidate that subsidiary. If the subsidiary that provides the investment-related services or activities is itself an investment entity, the investment entity parent should measure that subsidiary at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when apply the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

Furthermore, if a parent that is an investment entity and has measured all of its subsidiaries at fair value through profit or loss, that investment entity should present the disclosures relating to investment entities required by HKFRS 12 in its financial statements. If an investment entity has consolidated its subsidiary in which the subsidiary itself is not an investment entity and whose main purpose and activities are providing services that relate to the investment activities of its investment entity parent, the disclosure requirements in HKFRS 12 apply to financial statements in which the investment entity consolidates that subsidiary.

The amendments to HKFRS 10, HKFRS 12 and HKAS 28 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

i) Identify the contract with the customer;

ii) Identify the performance obligations in the contract;

iii) Determine the transaction price;

iv) Allocate the transaction price to the performance obligations; and

v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (i.e, subsidiaries). Control is achieved when the Company:

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and point paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest or principal payments; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment on financial assets *(Continued)*

– it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or

– disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, other receivables where the carrying amount is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are reduced through the use of an allowance account. When trade and bills receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, amount due to ultimate holding company, borrowings are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the good sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants *(Continued)*

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Payments to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

– exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated financial statement comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the fair value of money is material).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, directors of Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying the entity's accounting policies

The following is the critical judgement that the directors of the Company have made in process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Basis of business combination involving entities under common control

Upon completion of the acquisition of Sufficient Value Group in 2013, merger accounting was adopted in the consolidated financial statements to account for the results, assets and liabilities of Sufficient Value Group from the first date under common control. All of combined entities are under common control of the Sichuan Changhong both before and after the acquisition, and that the control is not transitory.

The Group's management exercises its significant level of judgement when determining whether the Group has prepared the financial statement on the basis of business combination involving entities under common control upon Sichuan Changhong has obtained the control over the board of directors of the Company since 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated.

Estimated impairment of trade and bills receivables

Management regularly reviews the recoverability and/or age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated statement of profit or loss when there is objective evidence that the asset is impaired.

In determining whether impairment of bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2014, the carrying amount of trade and bills receivables is approximately HK$2,070,943,000 (net of provision of impairment loss of approximately HK$48,714,000) (2013: carrying amount of approximately HK$1,465,166,000 (net of provision of impairment loss of approximately HK$23,921,000)). During the year ended 31 December 2014, impairment loss in respect of trade receivables was recognised in consolidated statement of profit or loss and other comprehensive income amounting to HK$25,124,000 (2013: HK$23,492,000).

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. As at 31 December 2014, the carrying amount of inventories was HK$1,542,822,000 (2013: HK$1,831,192,000) (net of allowance for inventories of HK$9,134,000 (2013: HK$12,733,000)).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Contingent liabilities

Contingent liabilities were arising from a possible fine related to unpaid amount of social insurance of approximately HK$29,796,000 (2013: HK$29,796,000) and unpaid amount of housing provident fund of approximately HK$10,394,000 (2013: HK$10,394,000). The fine will be recognised in the statements of financial position if the Group does not settle the unpaid amounts within a specific time upon request. Details are set out in note 35.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group is not subject to any externally imposed capital requirements.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2014	2013
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**2,593,602**	2,210,867
Financial liabilities		
At amortised cost	**3,010,522**	3,129,140

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For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, pledged bank deposits and bank balances and cash, trade and bills payables, other payables, amount due to ultimate holding company and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 2% (2013: 2%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 98% (2013: 98%) of cost are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Euro ("EUR")	**–**	30,533	**–**	53,904
Australian Dollars ("AUD")	**–**	420	**–**	210
Hong Kong Dollars ("HK$")	**545**	15,624	**1,549**	5,112
United States Dollars ("USD")	**50,704**	–	**194,887**	–

The Group does not currently have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of HK$/EUR/AUD/USD.

The following table details the Group's sensitivity to a 10% (2013: 10%) increase and decrease in the functional currency of group entities against the relevant foreign currencies. 10% (2013: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 10% (2013: 10%) change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the Group. A positive number below indicates an increase in post-tax profit (2013: an increase in post-tax profit) where functional currency of group entities strengthen 10% (2013: 10%) against the relevant currency. For a 10% (2013: 10%) weakening of functional currency of group entities against the relevant currency, there would be an equal and opposite impact on the profit or loss, and the balances below would be negative.

	HK$ Impact		**EUR Impact**		**AUD Impact**		**USD Impact**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit or loss	**(75)**	(788)	**–**	(1,949)	**–**	17	**(10,813)**	–

Interest rate risk

The Group's fair value interest-rate risk relates primarily to fixed rate borrowings (note 27). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's cash flow interest rate risk relates primarily to variable-rate short-term bank balances (see note 22 for details of these balances). The exposure to the interest rate risk for variable-rate bank balances is insignificant as the bank balances have a short maturity period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Interest rate risk (Continued)

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. 100 basis points (2013: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

As at 31 December 2014, if interest rates on bank balances had been 100 basis points (2013: 100 basis points) higher/lower and all other variables were held constant, post-tax profit for the year ended 31 December 2014 would increase/decrease by HK$1,598,000 (2013: HK$3,807,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate short-term bank balances.

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 15% (2013: 9%) and 37% (2013: 22%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers respectively which are mainly located in the PRC and include the ultimate holding company and the fellow subsidiaries of the Company.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalent deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group currently relies on borrowings as a significant source of liquidity. As at 31 December 2014, the Group has available unutilised overdraft and short-term bank loan facilities of approximately HK$88,360,000 (31 December 2013: HK$89,032,000) and HK$107,093,000 (31 December 2013: HK$107,908,000) respectively.

The management will closely monitor the cash flow generated from operations and the Group's needs for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Repayable on demand or less than 1 month	**1-3 months**	**Over 3 months but less than 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31/12/2014**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
2014					
Non-derivative financial liabilities					
Trade and bills payables	**2,009,424**	**–**	**–**	**2,009,424**	**2,009,424**
Other payables	**153,171**	**–**	**–**	**153,171**	**129,831**
Amount due to ultimate holding company	**2,767**	**–**	**–**	**2,767**	**2,767**
Borrowings	**100,238**	**–**	**790,200**	**890,438**	**868,500**
	2,265,600	**–**	**790,200**	**3,055,800**	**3,010,522**

	Repayable on demand or less than 1 month	1-3 months	Over 3 months but less than 1 year	Total undiscounted cash flows	Carrying amount at 31/12/2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2013					
Non-derivative financial liabilities					
Trade and bills payables	1,968,262	–	–	1,968,262	1,968,262
Other payables	122,868	–	–	122,868	122,868
Amount due to ultimate holding company	3,219	–	–	3,219	3,219
Borrowings	7,764	19,988	1,073,062	1,100,814	1,034,791
	2,102,113	19,988	1,073,062	3,195,163	3,129,140

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair values of financial assets and liabilities

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. TURNOVER

The principal activities of the Group are the provision of professional integrated IT solutions and services, and distribution of IT consumer products, IT corporate products, digital products, own brand products, consumer electronic products and related parts and components.

Turnover represents net amount received and receivable for the sale of different types of IT products, self developed products, provision of professional integrated IT solutions and services and trading of consumer electronic products, net of discounts and corresponding sales related taxes. The amounts of each significant category of revenue recognised in turnover for the years ended 31 December 2014 and 2013 are as follows:

	2014	2013
	HK$'000	*HK$'000*
IT Consumer Products	**12,138,903**	11,168,587
IT Corporate Products	**5,268,553**	4,588,062
Consumer Electronic Products	**593,916**	2,313,947
Others	**151,338**	272,945
	18,152,710	18,343,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. OTHER INCOME

	2014	2013
	HK$'000	*HK$'000*
Bank interest income	**7,996**	4,697
Reversal of allowance to trade receivables	**–**	6,396
Gain on disposal of plant and equipment	**138**	109
Government subsidy	**8,724**	16,526
Exchange gain, net	**–**	5,605
Gain on disposal of subsidiaries	**7,437**	–
Others	**2,899**	2,301
	27,194	35,634

9. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided as they collectively make strategic decision towards the group entity's operation.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1) IT Consumer Products – distribution of IT consumer products which include mainly personal computers, digital products and IT accessories.

2) IT Corporate Products – distribution of IT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communication and contact centre products.

3) Consumer Electronic Products – trading of consumer electronic products which include mainly LCD panels, electronic parts and components.

4) Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products and provision of professional integrated IT solutions and services.

9. SEGMENT INFORMATION *(Continued)*

The accounting policies of the operating segments are the same as the Company's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of bank interest expenses, unallocated income as well as head office and corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets do not include plant and equipment, prepayment, deposits and other receivables for general operating, tax recoverable, pledged bank deposits, bank balances and cash and amounts due from related companies. Segment liabilities do not include other payables for general operating, tax payables, amount due to ultimate holding company and bank and other borrowings and deferred income.

The following is an analysis of the Group's revenue and results, as well as assets and liabilities by reportable and operating segment:

Year ended 31 December 2014

	IT Consumer products *HK$'000*	IT Corporate products *HK$'000*	Consumer Electronic products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue					
External sales	12,138,903	5,268,553	593,916	151,338	18,152,710
Segment profit	151,128	287,633	2,358	1,031	442,150
Other income					27,194
Finance costs					(62,303)
Unallocated head office and corporate expenses					(133,349)
Profit before tax					273,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014 *(Continued)*

	IT Consumer products *HK$'000*	IT Corporate products *HK$'000*	Consumer Electronic products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment assets	1,829,946	2,040,109	38,786	47,065	3,955,906
Unallocated assets:					
Pledged bank deposits					241,131
Bank balances and cash					212,204
Prepayments, deposits and other receivables					69,324
Tax recoverable					965
Plant and equipment					25,154
Total assets					4,504,684
Segment liabilities	1,222,483	921,328	9,987	10,591	2,164,389
Unallocated liabilities:					
Other payables					153,172
Tax payable					37,714
Borrowings					868,500
Amount due to ultimate holding company					2,767
Deferred income					9,459
Total liabilities					3,236,001

9. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2013

	IT Consumer products *HK$'000*	IT Corporate products *HK$'000*	Consumer Electronic products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue					
External sales	11,168,587	4,588,062	2,313,947	272,945	18,343,541
Segment profit	159,640	304,129	23,107	734	487,610
Other income					35,634
Finance costs					(108,314)
Unallocated head office and corporate expenses					(158,759)
Profit before tax					256,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2013 *(Continued)*

	IT Consumer products *HK$'000*	IT Corporate products *HK$'000*	Consumer Electronic products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment assets	1,882,710	1,698,954	8,366	19,540	3,609,570
Unallocated assets:					
Pledged bank deposits					191,951
Bank balances and cash					499,936
Prepayments, deposits and other receivables					121,438
Tax recoverable					1,962
Plant and equipment					28,452
Total assets					4,453,309
Segment liabilities	1,186,589	720,413	215,953	4,238	2,127,193
Unallocated liabilities:					
Other payables					186,176
Tax payable					4,961
Borrowings					1,034,791
Amount due to ultimate holding company					3,219
Deferred income					14,072
Total liabilities					3,370,412

9. SEGMENT INFORMATION *(Continued)*

Other segment information:

Year ended 31 December 2014

	IT Consumer products *HK$'000*	IT Corporate products *HK$'000*	Consumer Electronic products *HK$'000*	Others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:						
Impairment losses recognised on trade receivables	18,323	6,620	–	181	–	25,124
Reversal of allowance for obsolete inventories	(948)	(2,462)	–	(189)	–	(3,599)
Research and development expenses	–	–	–	12,599	–	12,599
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:						
Depreciation	–	–	–	–	8,747	8,747
Gain on disposal of plant and equipment	–	–	–	–	(138)	(138)
Bank interest income	–	–	–	–	(7,996)	(7,996)
Finance costs	–	–	–	–	62,303	62,303
Income tax expenses	–	–	–	–	80,396	80,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Other segment information: *(Continued)*

Year ended 31 December 2013

	IT Consumer products HK$'000	IT Corporate products HK$'000	Consumer Electronic products HK$'000	Others HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:						
Reversal for allowance for trade receivables	(3,837)	(2,559)	–	–	–	(6,396)
Reversal of write-down of inventories	(12)	–	–	–	–	(12)
Impairment losses recognised on trade receivables	15,661	7,831	–	–	–	23,492
Allowance for obsolete inventories	42	583	–	169	–	794
Research and development expenses	–	–	–	10,283	–	10,283
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:						
Additions to plant and equipment	–	–	–	–	11,457	11,457
Depreciation	–	–	–	–	8,615	8,615
Gain on disposal of plant and equipment	–	–	–	–	(109)	(109)
Bank interest income	–	–	–	–	(4,697)	(4,697)
Finance costs	–	–	–	–	108,314	108,314
Income tax expenses	–	–	–	–	58,673	58,673

9. SEGMENT INFORMATION *(Continued)*

Geographical information

The following table provides an analysis of the Group's sales by geographical market, based on the origin of the goods:

	2014	2013
	HK$'000	*HK$'000*
PRC	**17,817,057**	17,028,726
Europe	**1,330**	303,223
South America	**8,973**	361,244
Hong Kong	**283,131**	259,630
Africa	**8,916**	78,221
Middle East	**19,030**	46,889
Australia	**1,810**	25,282
Other Asian District	**12,463**	240,326
	18,152,710	18,343,541

The following is an analysis of the carrying amount of non-current assets analysed by the geographical area in which the assets are located:

	Carrying amount of non-current assets	
	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**24**	134
PRC	**25,130**	28,318
	25,154	28,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total sales of the Group is as follows:

	2014	2013
	HK$'000	*HK$'000*
Customer A	**1,981,253**	N/A*

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

10. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on:		
Borrowings repayable within 5 years	**27,380**	68,521
Discount of bills receivables	**26,271**	34,770
Guarantee fee	**8,652**	5,023
	62,303	108,314

11. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (2013: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

12. INCOME TAX EXPENSES

	2014	2013
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation:		
Hong Kong Profits Tax		
– Provision for the year	**40**	816
PRC Enterprise Income Tax		
– Provision for the year	**80,356**	62,070
– Over provision in prior years	**–**	(4,213)
	80,356	57,857
	80,396	58,673

(i) Pursuant to the rules and regulations of the Bermuda, the Company is not subject to any income tax in the Bermuda.

(ii) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(iii) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of Changhong IT Information Products Co., Ltd., Changhong IT Digital Technology Co., Ltd. and Beijing Changhong IT Intelligence System Co., Ltd are 25% for the years ended 31 December 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

12. INCOME TAX EXPENSES *(Continued)*

The tax charge for the years can be reconciled to the profit before tax per the consolidated statement of comprehensive profit or loss as follow:

	2014	2013
	HK$'000	*HK$'000*
Profit before tax	**273,692**	256,171
Tax at the domestic income tax rate of 25% (2013: 25%)	**68,423**	64,043
Tax effect of income not taxable for tax purpose	**(6,039)**	(18,351)
Tax effect of expenses not deductible for tax purpose	**18,000**	17,377
Tax effect of other deductible temporary differences not recognised	**12**	12
Tax effect of tax losses not recognised	**–**	(195)
Over provision in prior years	**–**	(4,213)
Income tax expenses	**80,396**	58,673

Withholding tax

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$815,093,000 (2013: HK$629,948,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

13. DEFERRED TAXATION

At the end of the reporting period, the Group had unused tax losses and other deductible temporary differences of approximately HK$24,961,000 (2013: HK$24,961,000) and HK$856,000 (2013: HK$808,000) respectively available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of unused tax loss and other deductible temporary differences due to the unpredictability of future profit streams.

14. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2014	2013
	HK$'000	*HK$'000*
Depreciation for plant and equipment	**8,747**	8,615
Auditor's remuneration	**1,680**	1,750
Directors' emoluments	**10,442**	15,205
Cost of inventories recognised as an expense	**17,388,303**	17,565,768
Staff costs, including directors' emoluments *(note 15a)*		
– Salaries and related staff costs	**176,711**	139,839
– Retirement benefits scheme contributions	**43,913**	39,946
	220,624	179,785
Exchange loss, net	**3,004**	–
Allowance for obsolete inventories (included in cost of sales)	**–**	794
Reversal of allowance for inventories (included in cost of sales)	**(3,599)**	(12)
Impairment losses recognised on trade receivables (included in administrative expenses)	**25,124**	23,492
Research and development expenses (included in selling expenses) *(note)*	**12,599**	10,283
Minimum lease payments in respect of rented premises	**15,447**	15,020

Note: During the year ended 31 December 2014, research and development costs excluded staff costs of approximately HK$11,971,000 (2013: HK$8,226,000) for the Group's employees engaged in research and development activities which are included in staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid by the Group to the directors during the year are as follows:

For the year ended 31 December 2014

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits scheme contributions HK$'000	Performance related incentive payments HK$'000	Total HK$'000
Executive directors					
Ms. Shi Ping	–	–	–	–	–
Mr. Tang Yun	–	356	11	44	411
Mr. Zhao Yong	–	–	–	–	–
Mr. Xiang Chao Yang[1]	–	85	–	–	85
Mr. Yu Xiao	–	–	–	–	–
Mr. Wu Xiangtao	–	–	–	–	–
Mr. Zhu Jianqiu	–	1,287	63	7,856	9,206
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Robert Ip Chun Chung	180	–	–	–	180
Mr. Sun Dongfeng	180	–	–	–	180
Mr. Cheng Yuk Kin	180	–	–	–	180
	740	1,728	74	7,900	10,442

1 Resigned on 16 May 2014.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2013

	Fees	Salaries and allowances	Retirement benefits scheme contributions	Performance related incentive payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$000*	*HK$'000*
Executive directors					
Mr. David Ji Long Fen[2]	–	60	–	–	60
Ms. Shi Ping	–	–	–	–	–
Mr. Tang Yun	–	570	15	493	1,078
Mr. Zhao Yong[1]	–	–	–	–	–
Mr. Xiang Chao Yang	–	–	–	–	–
Mr. Yu Xiao	–	–	–	–	–
Mr. Wu Xiangtao	–	–	–	74	74
Mr. Rong Dong[3]	–	393	15	321	729
Mr. Zhu Jianqiu[1]	–	1,278	55	11,191	12,524
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Robert Ip Chun Chung	180	–	–	–	180
Mr. Sun Dongfeng	180	–	–	–	180
Mr. Cheng Yuk Kin	180	–	–	–	180
	740	2,301	85	12,079	15,205

1 Appointed on 15 Apr 2013.
2 Resigned on 21 May 2013.
3 Resigned on 21 Apr 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in this Group, one (2013: three) were directors of the Company whose emoluments are included in the directors in 15a above. The emoluments of the remaining four (2013: two) individuals were as follows:

	2014	2013
	HK$'000	*HK$'000*
Salaries and other allowances	**11,525**	11,192
Retirement benefit scheme contributions	**150**	118
	11,675	11,310

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$4,000,000	**2**	–
HK$4,000,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$6,000,000	**–**	2
	4	2

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(c) Directors' and employees emoluments

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. In the years ended 31 December 2014 and 2013, three directors, Ms. Shi Ping, Mr. Wu Xiangtao and Mr. Yu Xiao waived emoluments of HK$60,000 each (2013: HK$60,000 each). No emoluments have been paid and waived for a director, Zhao Yong for the years ended 31 December 2014 and 2013.

Mr. Zhu Jianqiu is also the managing director of the Company and his emoluments disclosed above include those for services rendered by him as the managing director.

16. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2014	2013
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	**185,110**	178,090

	2014	2013
	'000	*'000*
Number of Share		
Weighted average number of ordinary shares and convertible preference shares for the purpose of basic earnings per share	**2,475,544**	2,231,059

As there were no dilutive potential shares during the two years ended 31 December 2014 and 2013, the diluted earnings per share is the same as basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

17. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicle HK$'000	Total HK$'000
COST				
At 1 January 2013 as restated	52,814	13,503	2,328	68,645
Additions	11,126	–	331	11,457
Disposals	(11,361)	–	–	(11,361)
Exchange realignment	1,086	269	41	1,396
At 31 December 2013	53,665	13,772	2,700	70,137
At 1 January 2014	**53,665**	**13,772**	**2,700**	**70,137**
Additions	**5,840**	**–**	**–**	**5,840**
Disposals	**(2,460)**	**(106)**	**(119)**	**(2,685)**
Exchange realignment	**(401)**	**(100)**	**(18)**	**(519)**
At 31 December 2014	**56,644**	**13,566**	**2,563**	**72,773**
DEPRECIATION				
At 1 January 2013 as restated	35,729	1,349	1,282	38,360
Charge for the year	5,351	2,922	342	8,615
Disposals	(6,062)	–	–	(6,062)
Exchange realignment	734	19	19	772
At 31 December 2013	35,752	4,290	1,643	41,685
At 1 January 2014	**35,752**	**4,290**	**1,643**	**41,685**
Charge for the year	**5,544**	**2,885**	**318**	**8,747**
Disposals	**(2,429)**	**(57)**	**(22)**	**(2,508)**
Exchange realignment	**(266)**	**(29)**	**(10)**	**(305)**
At 31 December 2014	**38,601**	**7,089**	**1,929**	**47,619**
CARRYING VALUES				
At 31 December 2014	**18,043**	**6,477**	**634**	**25,154**
At 31 December 2013	17,913	9,482	1,057	28,452

17. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis over the estimated useful lives after taking into account their estimated residual values as below:

Furniture, fixtures and equipment	5 years
Leasehold improvements	over the term of the lease ranging from 2 to 5 years
Motor vehicle	3 years

18. INVENTORIES

	2014 HK$'000	2013 HK$'000
Trading merchandises	**1,542,822**	1,831,192

During the year ended 31 December 2014, there was an increase in the net realisable values of inventories due to change in the market situation. As a result, a reversal of write-down of inventories of HK$3,599,000 (2013: HK$12,000) has been recognised and included in cost of sales.

19. TRADE AND BILLS RECEIVABLES

	2014 HK$'000	2013 HK$'000
Trade receivables	**2,063,299**	1,411,281
Less: Provision of impairment loss	**(48,714)**	(23,921)
	2,014,585	1,387,360
Bills receivables	**56,358**	77,806
Trade and bills receivables	**2,070,943**	1,465,166

The amounts due from fellow subsidiaries of the Company of HK$82,018,000 in 2013 (2014: Nil) and amount due from the ultimate holding company of the Company of HK$9,967,000 in 2013 (2014: Nil).

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For the year ended 31 December 2014

19. TRADE AND BILLS RECEIVABLES *(Continued)*

The Company allows an average credit period of 30-180 days (2013: 30-180 days) to its third party and related party trade customers. Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 79% (2013: 75%) of the trade and bills receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Company. The Company does not hold any collateral over these balances.

Included in the Company's trade and bills receivable balance are debtors with aggregate carrying amount of approximately HK$426,513,000 (2013: HK$369,871,000) which were past due at the reporting date for which the Company has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Company does not hold any collateral over these balances.

The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts based on the invoice dates at the end of the reporting period which approximated the respective revenue recognition dates:

	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**1,343,862**	637,175
31 – 60 days	**407,365**	308,210
61 – 90 days	**132,411**	156,357
91 – 180 days	**75,685**	199,472
181 – 365 days	**74,708**	125,368
Over 1 year	**36,912**	38,584
	2,070,943	1,465,166

19. TRADE AND BILLS RECEIVABLES *(Continued)*

Ageing of trade and bills receivables which are past due but not impaired:

	2014 HK$'000	2013 HK$'000
Within 30 days	**197,744**	70,510
31 – 60 days	**99,776**	28,126
61 – 90 days	**65,708**	44,519
91 – 180 days	**35,181**	129,797
Over 180 days	**28,104**	96,919
	426,513	369,871

At 31 December 2014, the carrying amount of the trade receivables which have been pledged as security for the borrowing is HK$99,225,000 (2013: HK$44,874,000). The carrying amount of the associated liability is HK$79,380,000 (2013: HK$29,916,000) as set out in note 27.

Included in trade and bills receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2014 HK$'000	2013 HK$'000
EUR	**–**	29,560
AUD	**–**	210
USD	**18,754**	–

Movement in the allowance for trade receivables

	2014 HK$'000	2013 HK$'000
Balance at beginning of the year, as restated	**23,921**	6,687
Impairment losses recognised on trade receivables	**25,124**	23,492
Exchange realignment	**(331)**	138
Reversal for allowance for trade receivables	**–**	(6,396)
Balance at the end of the year	**48,714**	23,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

19. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of HK$48,714,000 (2013: HK$23,921,000) as at 31 December 2014, which have been in severe financial difficulties.

The following were the Group's financial assets as at 31 December 2014 and 2013 that were transferred to banks by discounting those receivables on a full recourse basis. At the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 27). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

Bills receivables discounted to banks with full recourse

	2014 *HK$'000*	2013 *HK$'000*
Carrying amount of transferred assets	**99,225**	44,874
Carrying amount of associated liabilities	**(79,380)**	(29,916)
Net position	**19,845**	14,958

20. TRADE DEPOSITS PAID

Balances of trade deposits paid were denominated in the functional currency of respective relevant group entities.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2014 *HK$'000*	2013 *HK$'000*
Prepayments	**150**	162
Other tax receivable	**23,528**	81,427
Deposits and other receivables	**45,646**	53,815
	69,324	135,404

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Included in prepayments, deposits and other receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2014	2013
	HK$'000	*HK$'000*
USD	**3,608**	–
HK$	**–**	13,379

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

	2014	2013
	HK$'000	*HK$'000*
Pledged bank deposits	**241,131**	191,951
Bank balances and cash	**212,204**	499,936
	453,335	691,887

Bank balances bear interest at floating rates based on daily bank deposits rates.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2014	2013
	HK$'000	*HK$'000*
HK$	**545**	2,245
AUD	**–**	210
EUR	**–**	993
USD	**28,342**	–

At 31 December 2014 and 2013, pledged bank deposits were pledged to secure general banking facilities granted to the Group and did not carry any interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

23. TRADE AND BILLS PAYABLES

Included in the balance are amount due to the ultimate holding company of the Company of HK$7,650 (2013: HK$116,578,000) and there is no balance due to the fellow subsidiaries of the Company (2013: HK$61,453,000). The ageing analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**1,764,698**	1,205,204
31 – 60 days	**82,607**	321,152
61 – 90 days	**4,771**	154,235
91 – 180 days	**140,846**	190,207
181 – 365 days	**5,593**	63,427
Over 1 year	**10,909**	34,037
	2,009,424	1,968,262

Included in trade and bills payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2014	2013
	HK$'000	*HK$'000*
AUD	**–**	210
EUR	**–**	53,016
USD	**188,496**	–

The average credit period on purchase of goods is 30 – 120 days (2013: 30 – 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Other payables	**51,325**	27,059
Provision for social insurance and housing provident fund	**40,190**	40,190
Other tax payables	**23,341**	67,532
Accruals	**38,316**	55,619
	153,172	190,400

Included in the balance are amounts due to the fellow subsidiaries of the Company of approximately HK$6,471,000 (2013: HK$6,541,000).

Included in other payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2014	2013
	HK$'000	*HK$'000*
HK$	**–**	5,112
EUR	**–**	888
USD	**6,391**	–

25. CUSTOMER DEPOSITS

Balances of customer deposits were denominated in functional currency of the respective relevant group entities.

26. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The balance is unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. BORROWINGS

	2014	2013
	HK$'000	*HK$'000*
Loan from a fellow subsidiary	**63,115**	504,051
Loan from ultimate holding company	**227,316**	–
Bank loans on bills discounted with recourse	**79,380**	29,916
Bank borrowings	**498,689**	500,824
	868,500	1,034,791
Secured	**79,380**	29,916
Unsecured	**789,120**	1,004,875
	868,500	1,034,791
Carrying amount repayable:		
On demand or within one year	**868,500**	530,740
More than one year, but not exceeding two years	**–**	504,051

At 31 December 2013, the amount of approximately HK$504,051,000 of loan from a fellow subsidiary, Changhong (Hong Kong) Trading Limited, was fully repaid during the year 2014.

The amount of approximately HK$63,115,000 of loan from a fellow subsidiary was advanced by 四川長虹集團財務有限公司 during the year ended 31 December 2014. The balance is unsecured, bearing interest at fixed rate at 5.04% per annum and repayable within one year.

The balance of RMB180,000,000 (approximately HK$227,316,000) of loan from ultimate holding company, is unsecured, interest bearing of 5.88% and repayable within one year.

At 31 December 2014, bank loans on bills discounted with recourse with a carrying amount of HK$79,380,000 (2013: HK$29,916,000) are secured by trade receivables with the carrying value of HK$99,225,000 (2013: HK$44,874,000) as set out in note 19. The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowing for the year ended 31 December 2014 are fixed from 2.5% to 3% (2013: 2.5% to 3%).

28. DEFERRED INCOME

The movement for deferred income is as follows:

	2014	2013
	HK$'000	*HK$'000*
Balance as at 1 January	**14,072**	22,435
Additions during the year	**4,216**	7,831
Amortisation (included in other income)	**(8,724)**	(16,526)
Exchange realignment	**(105)**	332
Balance as at 31 December	**9,459**	14,072

During the year ended 31 December 2014, the Group received government grants of approximately HK$4,216,000 (2013: HK$7,831,000) towards the research and development expenditure. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate on a systematic basis. This policy has resulted in a credit to income in the current year of approximately HK$7,034,000 (2013: HK$13,325,000).

The Group received government grants towards the acquisition of plant and equipment have been treated as deferred income and transferred to income over the useful lives of the related assets. This policy has resulted in a credit to income in the current year of approximately HK$1,690,000 (2013: HK$3,201,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES

Authorised:

	Number of shares		Share capital	
	2014	2013	**2014**	2013
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.025 each				
At beginning of year	**5,000,000**	1,200,000	**125,000**	30,000
Increase on 22 January 2013	**–**	3,800,000	**–**	95,000
At end of year	**5,000,000**	5,000,000	**125,000**	125,000
Convertible preference shares of HK$0.025 each				
At beginning of year	**3,000,000**	–	**75,000**	–
Increase on 22 January 2013	**–**	3,000,000	**–**	75,000
At end of year	**3,000,000**	3,000,000	**75,000**	75,000

On 22 January 2013, in contemplation of the issue and allotment of the new ordinary shares, the new convertible preference shares, the Company increased its authorised share capital from HK$30,000,000 divided into 1,200,000,000 ordinary shares of HK$0.025 each to HK$125,000,000 divided into 5,000,000,000 ordinary shares of HK$0.025 each and 3,000,000,000 new convertible preference shares of HK$0.025 each.

The convertible preference shares shall be non-redeemable by the Company or the holders thereof.

29. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES *(Continued)*

Issued and fully paid:

	Ordinary share			
	Number of shares		Share capital	
	2014	2013	**2014**	2013
	'000	*'000*	***HK$'000***	*HK$'000*
At beginning of year	**469,000**	334,000	**11,725**	8,350
Issue of shares *(note 1)*	**223,652**	135,000	**5,591**	3,375
Convertible Preference Shares converted to Ordinary Shares *(note 2)*	**762,000**	–	**19,050**	–
At end of year	**1,454,652**	469,000	**36,366**	11,725

	Convertible preference share			
	Number of shares		Share capital	
	2014	2013	**2014**	2013
	'000	*'000*	***HK$'000***	*HK$'000*
At beginning of year	**1,877,868**	–	**46,947**	–
Issue of shares *(note 3)*	**–**	1,877,868	**–**	46,947
Convertible Preference Shares converted to Ordinary Shares *(note 2)*	**(762,000)**	–	**(19,050)**	–
At end of year	**1,115,868**	1,877,868	**27,897**	46,947

Note 1: On 21 April 2014, the Company has allotted and issued an aggregate of 223,652,000 new ordinary shares of HK$0.025 each for settlement of a part of consideration of the acquisition of Wide Miracle Limited (the "Wide Miracle"). The fair value of the consideration is measured at the market price of the shares of the Company as at 10 June 2014 which is HK$1.39 per share, giving a total of approximately HK$310,876,000. The transaction cost of approximately HK$1,499,000 has been recognised in administrative expenses in the statement of profit or loss and other comprehensive income. Wide Miracle is principally engaged in investment holding activities and holds 10% of shareholding Changhong IT Information Products Co. Ltd. ("CHIT"). Upon the completion of acquisition, CHIT became a wholly-owned subsidiary of the Company.

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29. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES *(Continued)*

Note 1: *(Continued)*

On 22 January 2013, the Company has allotted and issued an aggregate of 135,000,000 new ordinary shares of HK$0.025 each for settlement of a part of consideration of the acquisition of Sufficient Value Group. The new ordinary shares were issued rank pari passu with the existing shares in all respects. The shares have been accounted for as issued at the using market price of the Company's shares as quoted on the Stock Exchange on the date of issuance of HK$1 each. Share premium of approximately HK$131,625,000 so resulted is recorded in reserves.

Note 2: One 21 April 2014, Fit Generation Holding Limited, a holder of the convertible preference shares of the Company exercise its right to convert 762,000,000 convertible preference shares of par value HK$0.025 each into ordinary shares of HK$0.025 each with total amount of approximately HK$19,050,000.

Note 3: On 22 January 2013, the Company has allotted and issued an aggregate of 1,877,868,000 new non-redeemable restricted voting convertible preference shares of par value of HK$0.025 each in respect of a part of consideration of the acquisition of Sufficient Value Group. Upon initial recognition, the fair value of the convertible preference shares was determined taking into account the valuation performed by Grant Sherman Appraisal Limited, with reference to the closing stock price of the Company at the date of completion of the acquisition, at HK$1,670,596,000. The difference between fair value and par value was recognised as share premium.

The major terms of the convertible preference shares are set out below:

The convertible preference shares are convertible into ordinary shares of the Company and are entitled to the same dividends that are declared for the ordinary shares. Convertible preference shares do not carry the right to vote in shareholders' meeting. Upon winding up, the Company's residual assets and funds are distributed to the members of the Company in the following priority:

(i) in paying to the holders of the convertible preference shares, pari passu as between themselves by reference to the aggregate nominal amount of the convertible preference shares held by them respectively, an amount equal to the aggregate of the issue price of all of the convertible preference shares held by them respectively;

(ii) the balance of such assets shall be distributed on a pari passu basis among the holders of any class of shares in the capital of the Company other than the convertible preference shares and other than any shares which are not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amount paid up on the shares held by them respectively; and

29. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES *(Continued)*

(iii) the remaining balance of such assets shall belong to and be distributed on a pari passu basis among the holders of any class of shares including the convertible preference shares, other than any shares not entitled to participate of such assets, by reference to the aggregate nominal amount of shares held by them respectively.

30. SHARE OPTION SCHEME

On 11 January 2000, the Company approved the share option scheme (the "Scheme") under which the directors of the Company may, at their discretion, grant options to full-time employees ("Employees") of the Company and its subsidiaries (including executive directors of the Company and its subsidiaries) to subscribe for shares in the Company. The Scheme became effective upon the listing of the Company's shares on the GEM on 24 January 2000.

The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time other than: (i) shares issued pursuant to this Scheme; and (ii) any pro rata entitlements to further issues in respect of any shares mentioned in (i) during a period of 10 years from the date when the Scheme is adopted. The subscription price shall be a price determined by the board of directors at its absolute discretion and notified to Employees and shall be not less than the higher of: (i) the closing price of the shares as stated in the daily quotation sheets issued by the GEM on the offer date; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the GEM for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

During the years ended 31 December 2014 and 2013, no option under the Scheme had been granted to any person, nor was there any outstanding option granted under the Scheme in issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014	2013
	HK$'000	HK$'000
Non-current assets		
Investments in subsidiaries	1,231,574	1,805,696
Current assets		
Prepayments, deposits and other receivables	150	162
Amounts due from subsidiaries *(Note a)*	12,603	5,792
Bank balances and cash	479	838
Tax recoverable	73	–
	13,305	6,792
Current liabilities		
Other payables	1,448	1,515
Amounts due to subsidiaries *(Note a)*	–	1,360
	1,448	2,875
Net current assets	11,857	3,917
	1,243,431	1,809,613
Capital and reserves		
Share capital	36,366	11,725
Convertible preference shares	27,897	46,947
Share premium and reserves *(Note b)*	1,179,168	1,750,941
	1,243,431	1,809,613

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

(b) Movements of share premium and reserves during the year are as follows:

	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2013	34,492	(38,112)	(3,620)
Loss for the year	–	(713)	(713)
Issue of ordinary shares	131,625	–	131,625
Issue of convertible preference shares	1,623,649	–	1,623,649
At 31 December 2013 and 1 January 2014	**1,789,766**	**(38,825)**	**1,750,941**
Loss for the year	**–**	**(877,058)**	**(877,058)**
Issue of ordinary shares	**305,285**	**–**	**305,285**
At 31 December 2014	**2,095,051**	**(915,883)**	**1,179,168**

32. OPERATING LEASE COMMITMENTS

The Group as lessee:

	2014	2013
	HK$'000	*HK$'000*
Minimum lease payments under operating lease during the year	**15,447**	15,020

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32. OPERATING LEASE COMMITMENTS *(Continued)*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters falling due as follows:

	2014	2013
	HK$'000	*HK$'000*
Within one year	**9,673**	12,964
In the second to fifth years, inclusive	**9,173**	17,890
	18,846	30,854

Leases are negotiated and rentals are fixed for terms of 2 to 5 years (2013: 2 to 5 years).

33. RETIREMENT BENEFIT SCHEME

The Group has joined the Mandatory Provident Fund Scheme ("MPF Scheme") for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2014, contributions of the Group under the MPF Scheme amounted to approximately HK$93,000 (2013: HK$146,000).

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government (the "PRC Pension Scheme"). The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefit. The only obligation of the Company with respect to the pension scheme is to make the required contributions. For the year ended 31 December 2014, contributions of the Group under the PRC Pension Scheme amounted to approximately HK$43,838,000 (2013: HK$39,800,000).

The total cost charged to the consolidated statement of profit or loss of approximately HK$43,931,000 for the year ended 31 December 2014 (2013: HK$39,946,000), represent contributions payable to these schemes by the Company during the year ended 31 December 2014.

34. MAJOR NON-CASH TRANSACTION

On 21 April 2014, Changhong (Hong Kong) Enterprises Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to acquire the entire equity interests of the Wide Miracle which is principally engaged in investment holding activities and holds 10% of equity interest in CHIT. Upon the completion of acquisition on 10 June 2014, CHIT became a wholly-owned subsidiary of the Company. The consideration will be satisfied by issuance of 223,652,000 ordinary shares of the Company at par value of HK$0.025 each. The fair value of the consideration is measured at the market price of the shares of the Company as at 10 June 2014 which is HK$1.39 per share, giving a total of approximately HK$310,876,000. Details were set out in the announcement on 21 April 2014 and the circular on 14 May 2014.

35. CONTINGENT LIABILITIES

The Group entered into labour service agreements separately with two employment agencies (the "Employment Agencies"), each an independent third party labour service company, to provide contractual workers for its production. Pursuant to the labour service agreement, the Employment Agencies will instruct these contractual workers to follow the direction of the Group's management for day-to-day work assignments. However, under the PRC Labour Contract Law, if each of the Employment Agencies violates the PRC Labour Contract Law and such violation results in damages to the contractual workers, the Group would be jointly and severally liable for the compensation payables to the contractual workers.

The Group has not paid the social insurance contribution and housing provident fund for these contractual workers in respect of the bonus paid by the Group to those contractual workers under the agreements made between the labour service company and these contractual workers.

At 31 December 2014, The Group has total accumulated unpaid amount of social insurance of approximately HK$29,796,000 (2013: HK$29,796,000) and unpaid amount of housing provident fund of approximately HK$10,394,000 (2013: HK$10,394,000). Provisions for the unpaid amounts had been recognised and included in other payables. As at 31 December 2014, the Group had not received any notice from the relevant housing fund or social security authorises ordering the Group to make outstanding payments or rectification, or any administrative penalties from the relevant authorities. The relevant authorities may request the Group at any time to pay up the outstanding amount of the social insurance or housing provident fund contributions and may impose a fine of up to three times of the unpaid amount of social insurance and housing provident fund on the Group if the above mentioned unpaid amounts are not settled within the time specified in the notice. The fine will be recognised in the statement of financial position if the Group does not settle the unpaid amounts within a specific time upon the request. During the years ended 31 December 2014 and 2013, no such request was received by the Group.

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36. LITIGATION

On 29 July 2013, a complaint for wrongful death was filed against Apex Digital, LLC ("ADLLC"), a subsidiary of the Company, in the Los Angeles Superior Court (the "Court"). The lawsuit arose from a fire at an apartment building that caused death of the occupant in 2012. The complaint alleges that the fire was caused by a CRT television that is believed to have been manufactured by the ultimate holding company and sold by its subsidiary in 2003. On 20 February 2014, a response to the complaint was filed in the Court, ADLLC intends to vigorously defend against the allegations in the complaint.

As the legal process is still in the early stage as at 31 December 2013, the outcome of the judgement from the court with regard to the complaint is not able to be assessed reliably. Also, as of this time, the lawsuit has not had any financial impact on the Company according to the legal opinion from the Company's lawyer. The directors of the Company believe possibility of a legal and financial liability regard to the complaint is remote and no reliable estimate can be made of the amount of the obligation at that stage and no provision was recognised on the consolidated financial position or results of operations of the Group for the year ended 31 December 2013.

On 5 September 2014, the Group disposed of its subsidiary, ADLLC to an independent third party and details are set out in note 39.

37. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

Name of company	Note	Nature of transaction	2014 HK$'000	2013 HK$'000
Ultimate holding company of the Group				
Sichuan Changhong		Sales of goods	**26,867**	583,294
		Purchases of goods	**4,001**	624,712
		Administrative expenses – rental expenses	**17**	17
		Research and development services charges	**–**	40
		Finance cost – interest expenses	**491**	24,555
四川長虹電子集團有限公司	*(i)*	Finance cost – guarantee charge	**8,652**	5,228
	(i)	Guarantee to suppliers – Maximum amount granted	**1,676,334**	704,866
Fellow subsidiaries of the Group				
四川長虹網絡科技有限責任公司	*(ii)*	Sales of goods	**–**	21
四川虹信軟件有限公司	*(ii)*	Sales of goods	**7,630**	14,259
四川世紀雙虹顯示器件有限公司	*(ii)*	Sales of goods	**–**	648
北京長虹科技有限公司	*(ii)*	Administrative expenses – rental expenses	**6,632**	6,583
北京京東方長虹網絡科技有限責任公司	*(ii)*	Sales of goods	**29**	29

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37. RELATED PARTY TRANSACTIONS *(Continued)*

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year: *(Continued)*

Name of company	Note	Nature of transaction	2014 HK$'000	2013 HK$'000
Fellow subsidiaries of the Company *(Continued)*				
四川長虹電子系統有限公司	*(ii)*	Sales of goods	**422**	35
四川快益點電器服務連鎖有限公司	*(ii)*	Sales of goods	**–**	47
四川虹微技術有限公司	*(ii)*	Sales of goods	**57**	81
四川長虹空調有限公司		Sales of goods	**10**	–
Changhong (Hong Kong) Trading Limited	*(iii)*	Finance cost – interest expenses	**3,762**	12,959
	(iii)	Purchase of goods	**5,489**	851
	(iii)	Sales of goods	**–**	1
Changhong Electric (Australia) Pty., Ltd.		Sales of goods	**–**	24,070
Changhong Electric Middle East Fze		Sales of goods	**–**	4
Guangdong Changhong Electronics Co., Ltd.		Sales of goods	**5,926**	228,206
		Purchase of goods	**10,186**	360,419
		Selling expenses – sales commission	**–**	2,441
		Selling expenses – employees insurance	**–**	37
Sichuan Changhong Component Technology Co., Ltd.		Sales of goods	**–**	8,326

37. RELATED PARTY TRANSACTIONS *(Continued)*

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year: *(Continued)*

Name of company	Note	Nature of transaction	2014 HK$'000	2013 HK$'000
Fellow subsidiaries of the Company *(Continued)*				
Sichuan Changhong Network Technologies Co., Ltd.		Sales of goods	**103**	51,373
Changhong Europe Electric S.R.O		Sales of goods	**–**	228,862
PT. Changhong Electric Indonesia		Sales of goods	**–**	42,091
Sichuan Hongrui Electronic Co. Ltd.		Sales of goods	**–**	8,646
Hefei Changhong Industry Co. Ltd.		Sales of goods	**–**	23,897
		Purchase of goods	**–**	3,093
Changhong Ruba Trading Company (PVT) Limited		Sales of goods	**–**	2,004
Changhong Ruba Electric Company (PVT) Limited		Sales of goods	**2,539**	1,114
Sichuan COC Display Devices Co. Ltd.		Purchase of goods	**–**	27,380

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37. RELATED PARTY TRANSACTIONS *(Continued)*

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year: *(Continued)*

Name of company	*Note*	Nature of transaction	**2014 *HK$'000***	2013 *HK$'000*
Fellow subsidiaries of the Company *(Continued)*				
深圳長虹科技有限責任公司		Administrative expenses – rental expenses	**–**	127
		Employee insurance	**–**	26
四川長虹物業服務有限責任公司		Administrative expenses – building management fee	**–**	25
四川長虹集團財務有限公司	(iv)	Finance cost – interest expenses	**9**	–
	(iv)	Sales of goods	**174**	–
Hefei Meiling Co, Ltd.		Purchase of goods	**–**	1,157
Sichuan Changhong Minsheng Logistics Co., Ltd.		Transportation	**–**	93
SVA RUBA Electronics Co.(Pvt) Ltd.		Sales of goods	**–**	9,334

Notes:

(i) 四川長虹電子集團有限公司 holds approximately 23.20% equity interest of Sichuan Changhong.

(ii) Sichuan Changhong has controlling interests in these companies.

(iii) Mr. Wu Xiangtao, a director of the Company, was appointed as a director of the related company since 1 September 2012.

(iv) Sichuan Changhong holds 50% equity interest in 四川長虹集團財務有限公司.

The details of continuing connect transactions are disclosed in Report of Directors section of the annual report.

37. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2014	2013
	HK$'000	*HK$'000*
Short-term benefits	**19,462**	27,713
Post-employment benefits	**256**	230
	19,718	27,943

The remuneration of directors and management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

(i) General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are set out below.

Name of subsidiaries	Place of incorporation/ registration and operation	Class of shares held	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly 2014 %	2013 %	Indirectly 2014 %	2013 %	Proportion of voting power held by the Company Directly 2014 %	2013 %	Indirectly 2014 %	2013 %	Principal activities
Apex Honour Resources Limited	British Virgin Islands	Ordinary	US$1	–	100	–	–	–	100	–	–	Investment holding
Apex Digital Inc.	British Virgin Islands	Ordinary	US$1	–	100	–	–	–	100	–	–	Inactive
Changhong Overseas Development Limited	Hong Kong	Ordinary	HK$100,000	100	100	–	–	100	100	–	–	Trading of consumer electronic products and related parts and components
Apex Digital, LLC	USA	Ordinary	US$365,190	–	–	–	100	–	–	–	100	Inactive
Apex Digital Inc. Limited	Hong Kong	Ordinary	HK$2	–	–	–	100	–	–	–	100	Inactive
Changhong (Hong Kong) Enterprises Limited	Hong Kong	Ordinary	HK$10,001	–	–	100	100	–	–	100	100	Investment holding
CHIT	PRC	–	RMB 200,000,000	–	–	100	90	–	–	100	90	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT Digital Technology Co., Ltd. 四川長虹佳華數字技術有限公司	PRC	–	RMB 50,000,000	–	–	100	90	–	–	100	90	Provision of professional integrated IT solutions and services and distribution of consumer digital products

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

(i) General information of subsidiaries *(Continued)*

Details of the Group's subsidiaries at the end of the reporting period are set out below. *(Continued)*

Name of subsidiaries	Place of incorporation/ registration and operation	Class of shares held	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly 2014 %	2013 %	Indirectly 2014 %	2013 %	Proportion of voting power held by the Company Directly 2014 %	2013 %	Indirectly 2014 %	2013 %	Principal activities
Beijing Changhong IT Intelligence System Co., Ltd. 北京長虹佳華智能系統有限公司	PRC	–	RMB 50,000,000	–	–	100	90	–	–	100	90	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT (Hong Kong) Information Products Co., Limited	Hong Kong	–	HK$ 10,000,000	–	–	100	90	–	–	100	90	Provision of professional integrated IT solutions and services and distribution of consumer digital products

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

(i) General information of subsidiaries *(Continued)*

Composition of the Group

Information about the composition of the Group other than the principal subsidiaries discussed above at the end of the reporting period is as follows:

Principal activities	Places of incorporation and operation	Number of wholly-owned subsidiaries 2014	2013
Investment holding	British Virgin Island	**2**	1
	Hong Kong	**1**	1
Inactive	British Virgin Island	**–**	1
	USA	**–**	1
	Hong Kong	**–**	1
Trading of consumer electronic products and related parts and components	Hong Kong	**–**	1
		3	6

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of a non-wholly-owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Places of incorporation/ establishment/ operations	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	**2014**	2013	**2014**	2013
				HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
四川長虹佳華信息產品有限責任公司	PRC	**–**	10%	**7,405**	15,530	**–**	85,796

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

四川長虹佳華信息產品有限責任公司

	2014	2013
	HK$'000	*HK$'000*
Non-current assets	**N/A**	128,218
Current assets	**N/A**	3,480,726
Current liabilities	**N/A**	(2,239,866)
Non-current liabilities	**N/A**	(511,120)
Equity attributable to owners of the Company	**N/A**	772,162
Non-controlling interests	**N/A**	85,796

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

(ii) Details of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

四川長虹佳華信息產品有限責任公司

	From 1 January 2014 to the period ended 10 June 2014	Year ended 31 December 2013
	HK$'000	HK$'000
Revenue	**5,506,175**	15,137,545
Expenses	**(5,432,123)**	(14,982,238)
Profit for the period/year	**74,052**	155,307
Profit for the period/year attributable to owners of the Company	**66,647**	139,777
Profit for the period/year attributable to the non-controlling interests	**7,405**	15,530
Profit for the year	**74,052**	155,307
Other comprehensive (expense) income for the period/year, net of income tax	**(10,150)**	16,659
Total comprehensive income for the period/year	**63,902**	171,966
Total comprehensive income attributable to owners of the Company	**57,512**	154,769
Total comprehensive income attributable to the non-controlling interests	**6,390**	17,197
Total comprehensive income for the period/year	**63,902**	171,966
Net cash inflow from operating activities	**451,793**	46,375
Net cash outflow from investing activities	**(2,455)**	(166,482)
Net cash (outflow) inflow from financing activities	**(598,920)**	140,455
Net cash (outflow) inflow	**(149,582)**	20,348

39. DISPOSAL OF SUBSIDIARIES

On 5 September 2014, the Group disposed of its entire equity interests in Apex Honor Resources Limited ("Apex HR") (together with its subsidiaries collectively referred to the "Apex HR Group") to an independent third party, at a consideration of HK$1.

Analysis of assets and liabilities over which control was lost:

	HK$'000
Bank balances and cash	7
Trade and bills payables	(5)
Tax payables	(7,439)
Net liabilities disposed of	(7,437)
Gain on disposal of subsidiaries:	
Consideration received	-
Net liabilities disposed of	(7,437)
Gain on disposal	7,437
Net cash outflow arising on disposal:	
Cash consideration	-
Bank balances and cash disposed of	(7)
	(7)

Upon the completion, the Company ceased to hold any interest in the Apex HR Group. The subsidiaries disposed of during the year had no significant impact on the Group's operating, investing and financing cash flows for the year ended 31 December 2014.