浙大蘭德

# ZHEDA LANDE SCITECH LIMITED*

# 浙江浙大網新蘭德科技股份有限公司

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

Stock Code: 8106

# 2016 Annual Report

* For identification purposes only

## 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.**



*This report, for which the directors (the "**Director(s)**") of Zheda Lande Scitech Limited* (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement herein or this report misleading.*

* *For identification purposes only*

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# CORPORATE INFORMATION

## DIRECTORS
### Executive Directors
Mr. Chen Ping *(Chairman)*
Mr. Wang Linhua
Mr. Wang Yong Gui
Mr. Chao Hong Bo
*(resigned with effect from 17 February 2017)*
Mr. Xia Zhen Hai
*(resigned with effect from 17 February 2017)*
Mr. Xie Fei
*(resigned with effect from 17 February 2017)*

### Independent Non-Executive Directors
Mr. Zhang De Xin
Mr. Cai Xiao Fu
Mr. Gu Yu Lin

## SUPERVISORS
### Supervisors
Mr. Xie Jian Ping *(Chairman)*
Mr. Wang Li Jun
Ms. Liu Chun Fang
*(resigned with effect from 17 February 2017)*

### Independent Supervisors
Mr. Feng Pei Xian
Ms. Wang Xiao Li

## AUTHORISED REPRESENTATIVES
Mr. Chen Ping
Ms. Chan Ching Yi

## CHIEF EXECUTIVE OFFICER
Mr. Qi Jinsong
*(appointed with effect from 17 February 2017)*
Mr. Chen Ping
*(resigned with effect from 17 February 2017)*

## COMPLIANCE OFFICER
Mr. Chen Ping
*(appointed with effect from 17 February 2017)*
Mr. Chao Hong Bo
*(resigned with effect from 17 February 2017)*

## COMPANY SECRETARY
Ms. Chan Ching Yi

## AUDIT COMMITTEE
Mr. Gu Yu Lin *(Chairman)*
Mr. Zhang De Xin
Mr. Cai Xiao Fu

## REMUNERATION COMMITTEE
Mr. Gu Yu Lin *(Chairman)*
Mr. Chen Ping
Mr. Cai Xiao Fu

## NOMINATION COMMITTEE
Mr. Zhang De Xin *(Chairman)*
Mr. Chen Ping
Mr. Gu Yu Lin

## REGISTERED OFFICE
108 Gu Cui Road
Hangzhou City
Zhejiang Province
The People's Republic of China (the "**PRC**")

## PRINCIPAL PLACE OF BUSINESS IN CHINA
13/F., Block A
No. 1 Xi Yuan Eight Road
Xihu District
Hangzhou City
Zhejiang Province
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1116-1119
Sun Hung Kai Center
30 Harbour Road
Wanchai
Hong Kong

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Hong Kong Registrars Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## AUDITOR
SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

## PRINCIPAL BANKER
Shanghai Pudong Development Bank
Hangzhou Branch
129 Yanan Road
Hangzhou City
Zhejiang Province
The PRC

## STOCK CODE
8106

# CHAIRMAN'S STATEMENT

I would like to present hereby on behalf of the Board the 2016 annual report of the Company and its subsidiaries (together the "**Group**").

## FINANCIAL HIGHLIGHTS

I hereby announce that for the year ended 31 December 2016, the Group recorded a turnover of approximately RMB140,486,000 with a loss attributable to owners of the Company of approximately RMB3,530,000.

The Board does not recommend the payment of a final dividend for the financial year ended 31 December 2016.

## REVIEW OF OPERATIONS AND PROSPECTS

During the year, the Group continued to be engaged in the provision of telecommunication solutions, trading of hardware and computer software and provision of telecommunication valued-added services in the PRC. In 2016, the Group maintained continuous cooperation with the telecommunication operators in providing SMS business cards and 114 Bai Shi Tong Alliance services to customers. However, due to the market competition conditions, such telecommunication value-added services business still did not have enhancement and did not demonstrate good operating results. Regarding the trading of hardware and computer software business, the Group grasped market opportunities and had achieved a relatively high growth in turnover when comparing with previous periods. However, given the relatively low gross profit margins of this business, there was no obvious improvement on the results of the Group as a whole.

In 2016, there were changes in the shareholder structure of the Company. The holders of domestic shares of the Company entered into share transfer agreements with the new shareholder, which had been completed in 2017. The Group and the new shareholder will review the actual past record of the Group's operations and make corresponding adjustments and planning, aiming to bring the Group out of its operation dilemma as soon as possible.

At the same time, the Directors and the management of the Group hereby expresses their thanks to the shareholders of the Company (the "**Shareholders**") and business partners of the Group for their years of support and assistance.

**Chen Ping**
*Chairman*

6 March 2017
Hangzhou City, the PRC

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS

### 1. Review of operating results for the year

For the year ended 31 December 2016, the consolidated turnover of the Group was approximately RMB140,486,000 (2015: RMB64,654,000), representing an increase of approximately RMB75,832,000, or approximately 117.29% as compared with that of 2015. The significant increase in the turnover of the Group for the year was mainly attributable to the substantial growth in the trading of hardware and computer software business segment during the second half of the year.

The loss attributable to owners of the Company for the year ended 31 December 2016 was approximately RMB3,530,000 (2015: RMB9,381,000). The operating environment for the Group remained harsh for the year. Despite the substantive growth in the turnover of the trading of hardware and computer software business segment for the year, given the low gross profit margins of this business segment, its contribution to the improvement of the results of the Group was not significant. Also, the development and commercialisation of the Group's mobile Internet industry application and services was not on track as anticipated and no returns have been created from this new business initiative. As a result, the Group continued to incur a loss for the year. The reduction in loss for the year was benefited mainly from (i) significant increase in exchange gain, included in other operating income, which was mainly resulted from the translation of unused Hong Kong dollars denominated proceeds from the placing of new H shares (the "**H Shares**") of the Company in the end of 2015 (the "**2015 Placing**") into Renminbi at the reporting date; and (ii) exerting pressure on cost and expenses cutting. Therefore, the reduction in loss for the year was not related to the improvement in business prospects of the Group. The Directors consider that it is uncertain whether the Group will continue to record reduction in loss or net profit going onward.

### 2. Product and business development

The Group obtained net proceeds from the 2015 Placing amounting to approximately RMB39,766,000 (equivalent to approximately HK$47,516,000) (the "**2015 Placing Proceeds**"), which has relieved the insufficient funds pressure of the Group. However, based on the current market environment and high research and development costs, there is a huge uncertainty to the revenue. As such, the Group has not yet succeeded in developing products with core competitiveness. In 2016, the Group continued to perform well and cooperate with the operators. The existing businesses, including SMS business cards, 114 Bai Shi Tong Alliance business and precise marketing are still in operation, and are exploring rooms for profitability. At present, the year-to-year decrease in revenue from the provision of telecommunication value-added services has been narrowed as compared with last year. At the same time, the trading of hardware and computer software business has shown improvement and achieved a more stable income. However, the Group noted the disadvantages of the existing businesses and has started a study to find a direction for a comprehensive development of new business and strives for the remodeling into future core products as soon as possible.

### 3. Investment and cooperation

During the year, the Group maintained good relationship with the operators and business partners. At present, the Group has no concrete investment plan.

### 4. Principal risks and uncertainties

The Group operates in the PRC. The domestic economy has slowed down, the original business consumption market tends to saturate, and the market competition is becoming more intense. At present, two major businesses of the Group tend to decline and have weak profitability, while competitive new business has not yet been formed.

Other risks and uncertainties are set out in notes 4 to 6 to the consolidated financial statements.

### 5. Employees and remuneration policy

As at 31 December 2016, the total number of employees of the Group was approximately 49 (2015: 48). During the year, the staff costs of the Group amounted to approximately RMB4,849,000 (2015: RMB6,551,000).

The Group formulated its human resources management strategies under the guidance of the Group's development strategy, aiming at targets established under its long-term planning. As an important part of the Group's development strategy, the human resources management strategy played an important supporting and propelling role in realising the overall development strategy of the Group. The Group built its human resources management structure from an overall strategic perspective, having the incentive mechanism combined with other links of human resources management and promoting one another. The Group opened up as many entrances as possible and established multiple recruitment channels to set up a talent-attracting mechanism. It also emphasised better use of human resources, and cultivating an agreeable mechanism for application and cultivation of talent.

The Group had set up an annual target salary system featuring performance assessment combined with remuneration management. The annual target salary was determined and paid out in accordance with the assessment results, whereby a comprehensive assessment was made on an employee after reasonable evaluation on his/her performance, capability and attitude. With these two things closely linked to each other, the Group had been able to effectively encourage its staff and guarantee the accomplishment of its targets.

The Group attached great concern on the personal development of its staff and provided them with many types of training to improve themselves in terms of quality and skills. Through assessment on the job responsibilities of its staff and hiring of professional consultancy companies to design staff training system, the Group tailored training courses for each individual, so as to make them better fit in their posts and help them grow in every aspect of their professional career. Only when the employees receive satisfactory improvement, can the Group have a bright future.

The Group currently has not issued any options nor has it adopted any share option scheme or bonus scheme.

### 6. Environmental protection

The Group's business does not involve any natural resource emissions. The key environmental impacts from the Group's operations mainly related to paper and energy consumption. To achieve environment protection, the Group encourages its employees to reduce paper, electricity and energy consumption throughout all of its operations.

### 7. Compliance

During the year, the Group has complied with all the relevant laws and regulations and has obtained all the permits and business licences from various governmental authorities necessary to carry on its businesses.

## REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

### *Financial performance*

- For the year ended 31 December 2016, the Group's turnover amounted to approximately RMB140,486,000 (2015: RMB64,654,000).
- For the year ended 31 December 2016, the Group achieved a profit margin of approximately 10.80% (2015: 22.00%).
- For the year ended 31 December 2016, the Group incurred a loss attributable to owners of the Company of approximately RMB3,530,000 (2015: RMB9,381,000).
- For the year ended 31 December 2016, the Group recorded a loss per share of approximately RMB0.70 cents (2015: RMB2.54 cents).

### *Financial positions*

- The Group maintained creditable financial conditions. For the year ended 31 December 2016, the Group was mainly financed by proceeds generated from daily operations and other internal resources.

- As at 31 December 2016, the Group's bank balances and cash amounted to approximately RMB49,388,000 (2015: RMB106,661,000). The total bank balances and cash to total assets and net assets ratio as at 31 December 2016 were approximately 43.96% (2015: 91.48%) and 48.51% (2015: 100.87%), respectively. The total bank balances and cash of the Group as at 31 December 2016 represented a decrease of approximately 53.70% as compared to the total bank balances and cash of the Group as at 31 December 2015. Such decrement was mainly attributable to (i) payments made to trade creditors for purchases of hardware and computer software; and (ii) payments for daily working capital.

- As at 31 December 2016, the Group's trade receivables amounted to approximately RMB57,135,000 (2015: RMB1,883,000). The trade receivables of the Group as at 31 December 2016 represented an increase of approximately 2,934.25% as compared to the trade receivables of the Group as at 31 December 2015. Such increment was mainly attributable to the significant growth in the trading of hardware and computer software business segment in the second half of the year. Approximately 99.33% of the Group's trade receivables as at 31 December 2016 were aged within 0 to 60 days.

- As at 31 December 2016, the Group had no borrowings (2015: nil).

- As at 31 December 2016, the Group had a total asset value of approximately RMB112,354,000 (2015: RMB116,591,000).

- As at 31 December 2016, the Group had current liabilities of approximately RMB10,543,000 (2015: RMB10,847,000).

- As at 31 December 2016, the Group had equity attributable to owners of the Company of approximately RMB98,877,000 (2015: RMB102,407,000).

- As at 31 December 2016, the Group had non-controlling interests of approximately RMB2,934,000 (2015: RMB3,337,000).

- As at 31 December 2016, the Group had a gearing ratio (i.e. the ratio of total liabilities to total assets) of approximately 9.38% (2015: 9.30%).

- As at 31 December 2016, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 9.45% (2015: 9.41%).

- As all of the Group's account payables of purchases and account receivables of sales are denominated in Renminbi, there is no foreign exchange risk.

- As at 31 December 2016, none of the Group's assets were pledged (2015: nil).

## ARBITRATION

Hangzhou Huaguang Computer Engineering Co., Ltd.* (杭州華光計算機工程有限公司) ("**Hangzhou Huaguang**"), a wholly-owned subsidiary of the Company, was involved in an arbitration filed by Ningbo Zhongke Guotai Information Technology Co., Ltd.* (寧波中科國泰信息技術有限公司) ("**Ningbo Zhongke**") on 22 June 2013 in relation to the dispute arising from the sales and purchase contract entered into between Hangzhou Huaguang and Ningbo Zhongke. According to the arbitration application, Ningbo Zhongke required Hangzhou Huaguang to refund the equipment payment and interests amounted to approximately RMB5,899,000 and settle the arbitration fees (the "**Arbitration Application**"). On 5 November 2013, Hangzhou Huaguang filed a counter-arbitration application to demand Ningbo Zhongke to make payments for the goods and overdue interests amounted to approximately RMB685,000 and the arbitration fees (the "**Counter-arbitration Application**"). Details of the Arbitration Application and the Counter-arbitration Application are set out in the announcement of the Company dated 29 November 2013. As at 31 December 2015, bank balance of Hangzhou Huaguang of approximately RMB2,075,000 was frozen by Hangzhou Arbitration Commission (the "**Commission**") in relation to the Arbitration Application. On 20 January 2016, the Commission issued the final judgement that the claims from both parties were dismissed and that no compensation was payable to each other and, subsequently on 27 January 2016, the frozen bank balance of RMB2,075,000 was released.

## CONTINGENT LIABILITIES

Save as disclosed in the sub-section headed "Arbitration" above, the Group had no material contingent liabilities as at 31 December 2016 and 2015.

## CAPITAL STRUCTURE

There were no changes in the Company's capital structure during the year ended 31 December 2016.

During the year ended 31 December 2015, the Company completed the 2015 Placing and issued 150,000,000 new H Shares to placees who are independent third parties; and the registered capital of the Company was increased to RMB50,654,617, comprising 244,421,170 domestic shares (the "**Domestic Shares**") of the Company of nominal value of RMB0.10 each and 262,125,000 H Shares of nominal value of RMB0.10 each, as at 31 December 2015 and 2016.

## SHAREHOLDING

### *Transfer of Domestic Shares*

On 2 December 2016, Zhejiang Shenghua Holdings Company Limited* (浙江升華控股有限公司) ("**Zhejiang Shenghua**") and certain holders of the Domestic Shares, namely Insigma Technology Co., Ltd.* (浙大網新科技股份有限公司) ("**Insigma Technology**"), Shanghai Longtail Investment Management Co., Ltd.* (上海長尾投資管理有限公司) ("**Shanghai Longtail**"), Guoheng Fashion Media Technology Group Co., Ltd.* (國恒時尚傳媒科技集團股份有限公司) ("**Guoheng Fashion Media**"), Hangzhou Gongjia Investment Management Co., Ltd.* (杭州共佳投資管理有限公司) ("**Hangzhou Gongjia**"), Mr. Chen Ping, Mr. Wang Leibo, Mr. Chen Guocai, Mr. Wang Jincheng, Mr. Jin Lianfu and Mr. Huo Zhonghui (collectively the "**Vendors**"), entered into respective share transfer agreement (the "**Share Transfer Agreement(s)**") pursuant to which Zhejiang Shenghua conditionally agreed to acquire and the Vendors conditionally agreed to sell an aggregate of 217,126,930 Domestic Shares, representing approximately 42.86% of the total number of issued shares (the "**Shares**") of the Company as at that date (the "**Share Transfer(s)**"). The completion of the Share Transfers was effected on 20 January 2017. Details of the Share Transfers were set out in the joint announcements jointly issued by Zhejiang Shenghua, Rise Sea Limited ("**Rise Sea**", a wholly-owned subsidiary of Zhejiang Shenghua) and the Company dated 7 December 2016 and 20 January 2017, respectively.

### *Unconditional mandatory cash offer for H Shares*

Upon the completion of the Share Transfers, Zhejiang Shenghua was directly interested in 217,126,930 Domestic Shares and indirectly, through its 100% interest held in Rise Sea, interested in 49,000,000 H Shares. Zhejiang Shenghua, Rise Sea and the parties acting in concert with any of them (the "**Offeror Group**") own an aggregate of 266,126,930 Shares, representing approximately 52.54% of the total number of issued Shares. Pursuant to the Hong Kong Code on Takeovers and Mergers, Rise Sea had made an unconditional mandatory general offer in cash (the "**H Share Offer**") for all the outstanding H Shares other than those already owned or agreed to be acquired by Rise Sea and Zhejiang Shenghua on 26 January 2017. The H Share Offer closed on 16 February 2017 and no valid acceptance under the H Share Offer was received by Rise Sea. Accordingly, immediately after the close of the H Share Offer, the Offeror Group was interested in an aggregate of 266,126,930 Shares (comprising 217,126,930 Domestic Shares and 49,000,000 H Shares), representing approximately 52.54% of the total number of issued Shares as at the dates of the close of the H Share Offer and this annual report, and are the new controlling Shareholders (the "**New Controlling Shareholders**"). Details of the H Share Offer and its closing are set out in the composite document (the "**Composite Document**") and the joint announcement of Zhejiang Shenghua, Rise Sea and the Company dated 26 January 2017 and 16 February 2017, respectively.

## EVENT AFTER THE REPORTING PERIOD

Save as the completion of the Share Transfers, the H Share Offer and the closing of the H Share Offer as described in the sub-section headed "Shareholding" above, there was no significant event after the reporting period.

## FUTURE PROSPECTS

### 1. Orders in hand/Status in sales contract

During the year, all the telecommunication value-added businesses of the Group were still within valid contract period (or renewed term) with the operators. These businesses at various locations were in operation at the sites concerned. The Group encompasses the industry application of mobile Internet, which is still at initial development stage and has not generated any income.

### 2. Prospects of new business and new products

The businesses of the Group such as the provision of telecommunication solutions, trading of hardware and computer software and provision of telecommunication value-added services continued to operate. The main works at present are pipelines expansion and products upgrade and improvement. In addition to the above-mentioned existing business structure of the Group, the Group has committed to seek new business opportunities in the mobile Internet industry application market though the progress thereof is not as expected. At present, it is still in the process of market demonstration and preliminary research.

### 3. Intended uses of the 2015 Placing Proceeds and new business development

As described in the 2015 annual report of the Company, the Group, leveraging on the strengthened financial position resulted from the 2015 Placing Proceeds and the proactive measures to recovering non-trade receivables, had planned to develop and transform its business towards mobile Internet industry application and services, aiming to strive for the remodeling into the future core business. A summary of the intended uses of the 2015 Placing Proceeds and the internal resources (including mainly bank balances and cash) of the Group and the related business plan of the Group had been set out in the 2015 annual report of the Company. However, the new business development was not on track as anticipated, as the development progress was slower than expected and significant amount of pre-market research and analysis had to be performed, which created more uncertainties. Up to 31 December 2016, the Group has not invested any significant amount into the development of new business and approximately RMB3,201,000 out of the 2015 Placing Proceeds had been utilised for daily working capital. As at the date of this annual report, the Group has not made any significant adjustments to the intended uses of the 2015 Placing Proceeds and its internal resources as well as the new business plan. The intended uses of the 2015 Placing Proceeds and the internal resources of the Group and an update on the progress of the new business plan as at the date of this annual report is summarised in the following table:

| No. | Nature of projects | Activities | Amounts intended to be used | Progress |
| --- | --- | --- | --- | --- |
| 1 | Investments in research and development in relation to telecommunication solutions and telecommunication value-added services, development of data mining technology and online business and its application or marketing platform, creating business platforms for corporate mobile Internet, so as to transform into "Internet +". | a. At present, the business platform product design prototype has been completed.<br><br>b. At present, the product is still in research and development stage.<br><br>c. The new product innovation center has been set up, but due to the lack of core human resources, the new research and development centre is still in its inception stage.<br><br>d. The Group intends to further recruit more technical and product managers and high-end talents. | a. RMB3,000,000 for setting up a new research and development centre. (Source of funding: the 2015 Placing Proceeds).<br><br>b. RMB2,000,000 for setting up a new product innovation center. (Source of funding: the 2015 Placing Proceeds).<br><br>c. RMB2,000,000 for recruitment of technical and product operations personnel and develop a talent plan. (Source of funding: internal resources).<br><br>d. RMB20,000,000 for operation of the business platform for enterprises and market development, including but not limited to, costs for locating customers, marketing and advertising support. (Source of funding: internal resources). | a. The primary version of the business platform has been completed, at present the version is revising and upgrading according to the needs, at the same time discuss with enterprises about market operations, access customer information, while actively building a marketing team.<br><br>b. New product innovation center and technology research and development department has been set up, at present due to lack of personnel, research and development and product innovation work were performed by external cooperative companies in accordance with the requirements of the Group. |
| 2 | Expand the Group's business networks and market of providing telecommunication solutions and telecommunication value-added services in the PRC; and the development of mobile Internet industry services. | a. Develop O2O community business.<br><br>b. Expand the marketing and sales personnel of existing products.<br><br>c. Set up representative offices in Jiangxi Province, Anhui Province and Fujian Province. | In addition to technology research and development, the Group intends to invest amounting to RMB6,000,000 (Source of funding: the 2015 Placing Proceeds). | At present, the business is still on suspended stage, there is not any favourable turn in the market, the Group takes a cautious attitude and will not make reckless investment. |

| No. | Nature of projects | Activities | Amounts intended to be used | Progress |
|---|---|---|---|---|
| 3 | Future investments | The Group intends to invest in potential assets and projects relating to the current businesses of telecommunication solutions and telecommunication value-added services, and the "Internet +" transformation. | The original investment plan was to invest RMB10,000,000 and the Group intends to further invest RMB30,000,000, a part of which may be allocated from the O2O program, depending on the circumstances. (Source of funding: the 2015 Placing Proceeds and internal resources). | There is no clear investment target at present, and in the future, there may be re-examining, or fine-tuning of the direction of investment or investment limit. |
| 4 | General working capital | a. Procurement of office equipment<br>b. Rental payments<br>c. The costs to maintain the Company as a listed company on GEM<br>d. Administrative expenses<br>e. Reserves | RMB21,000,000 (source of funding: the 2015 Placing Proceeds). | As of the end of 2016, the Group has paid general working capital of approximately RMB3,201,000: of which approximately RMB1,799,000 were paid as the staff wages; approximately RMB187,000 were paid as listing fees and professional party fees; and RMB1,215,000 were paid as other general working capital. |

As disclosed in the Composite Document, it is the intention of the New Controlling Shareholders that the Group will continue with its existing principal activities after the close of the H Share Offer. However, the New Controlling Shareholders will conduct a detailed review of the business activities and assets of the Group for the purpose of formulating business plans and strategies for the future business development of the Group with the aim of growing and expanding its business and strengthening its financial position. Subject to the results of the review, the New Controlling Shareholders may explore other business opportunities for the Group and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long term growth potential of the Group. However, as at the date of this annual report, no such investment or business opportunities have been identified nor has the New Controlling Shareholders or the Group entered into arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. The Company will publish further announcement(s) to inform the Shareholders of any update information or material adjustment to the intended uses of the 2015 Placing Proceeds and the internal resources of the Group and the new business plan of the Group.

On behalf of the Board
**Chen Ping**
*Chairman*

6 March 2017
Hangzhou City, the PRC

* *For identification purposes only*

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Chen Ping**, aged 52, is the chairman, the compliance officer and the authorised representative of the Company. Mr. Chen is also a director of 杭州群思特通信服務有限公司, a 55% owned subsidiary of the Company, and a director of Zheda Lande Scitech Information Limited, a wholly-owned subsidiary of the Company. Mr. Chen is an advisor to students seeking their master degree and an associate professor at Zhejiang University. Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University with a bachelor degree and a master degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University, Mr. Chen has been involved in the research and development of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize in 1993. Mr. Chen had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University for seven years up to 1997. Mr. Chen published two computers networking academic textbooks and a number of academic research papers in the PRC. Mr. Chen joined the Company since May 1997 and has been appointed as an executive Director since September 2001. Mr. Chen resigned as the chief executive officer of the Company and was appointed as the compliance officer of the Company, both with effect from 17 February 2017.

**Mr. Wang Linhua**, aged 41, is responsible for the whole spectrum of corporate finance of the Company. Mr. Wang is also a director of Zheda Lande Scitech Information Limited, a wholly-owned subsidiary of the Company. Mr. Wang graduated from the Xian University of Finance and Economics in accounting, and is a graduate of master in professional accounting in Zhongnan University of Economics and Law, and he has many years of experience in corporate finance management. Mr. Wang joined the Company since January 2008 and has been appointed as an executive Director since November 2011. Mr. Wang resigned as the vice president and financial controller of the Company with effect from 17 February 2017, but remains as an executive Director.

**Mr. Wang Yong Gui**, aged 42, is the secretary to the Board and the vice president of the Company. Mr. Wang graduated from the Institute of Managerial Economics in the Industrial University of Shenyang, with a bachelor degree in international finance. He has abundant experience in corporate governance of listed companies, investment and financing. Mr. Wang served in the securities department of Wafangdian Bearing Company Limited* (瓦房店軸承有限責任公司). Mr. Wang joined the Company since July 2002 and has been appointed as an executive Director since December 2012.

**Mr. Chao Hong Bo** *(resigned with effect from 17 February 2017)*, aged 53, obtained a bachelor degree of engineering from Beijing University of Posts and Telecommunications in 1985 and a master degree of economics from Renmin University of China in 1987. After graduation, Mr. Chao worked as a research assistant in State Bureau of Commodity Prices of the PRC until 1993. During the period between 1993 and 1999, Mr. Chao was the vice editorial director of National Development and Reform Commission of the PRC (previously known as State Planning Commission of the PRC). He then became an assistant to director in China Government Securities Depositary Trust & Clearing Co., Ltd. from 1999 to 2001. Since 2001, he has been serving as the executive director of Guoheng Fashion Media, a former shareholder holding approximately 6.74% of the issued share capital of the Company, who had disposed of its entire shareholding in the Company upon the completion of the Share Transfer. Mr. Chao was the compliance officer of the Company. Mr. Chao has been appointed as an executive Director since July 2007. As a result of the change of control of the Company, Mr. Chao resigned as an executive Director and the compliance officer of the Company, both with effect from 17 February 2017.

**Mr. Xia Zhen Hai** *(resigned with effect from 17 February 2017)*, aged 43, is a senior member of International Financial Management Association. Mr. Xia graduated from Zhejiang University with a PhD degree in engineering. From 2001 to 2005, Mr. Xia served at the Shanghai office of JS Cresvale Securities International Limited. From 2005 to 2007, he was the representative of Samsung Securities Co. Ltd., Shanghai office. Mr. Xia is now the legal representative and executive director of Shanghai Longtail, a former shareholder holding approximately 6.74% of the issued share capital of the Company, who had disposed of its entire shareholding in the Company upon the completion of the Share Transfer. Mr. Xia has been appointed as an executive Director since September 2007. As a result of the change of control of the Company, Mr. Xia resigned as an executive Director with effect from 17 February 2017.

**Mr. Xie Fei** *(resigned with effect from 17 February 2017)*, aged 46, is a Certified Public Accountant and a Certified International Internal Auditor in the PRC. Mr. Xie graduated from Zhejiang University of Finance and Economics with an associate degree in international accounting and a bachelor degree in accounting. Mr. Xie served in the finance department of Zhejiang Machinery and Equipment Import and Export Co., Ltd.* (浙江省機械設備進出口公司) between 1991 and 1999 and in the finance department of Hangzhou Alcatel Communication System Co., Ltd.* (杭州阿爾卡特通訊系統有限公司) between 1999 and 2001. Since 2001, Mr. Xie has been serving at Insigma Technology, a former substantial shareholder of the Company holding approximately 16.15% of the issued share capital of the Company and the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600797), who had disposed of its entire shareholding in the Company upon the completion of the Share Transfer. Mr. Xie is the deputy general manager of Insigma Technology. Mr. Xie has been appointed as an executive Director since November 2011. As a result of the change of control of the Company, Mr. Xie resigned as an executive Director with effect from 17 February 2017.

### Independent Non-Executive Directors

**Mr. Zhang De Xin**, aged 86, is the chairman of the nomination committee of the Company. Professor Zhang graduated from the faculty of Electrical and Mechanical Engineering at Zhejiang University in July 1953 and from Tsing Hua University in June 1956, respectively. He attended Illinois Institute of Technology in the United States from June 1982 to May 1984 and served as senior research associate in Department of Electrical and Mechanical as well as Department of Computer Engineering. Professor Zhang has served as a professor at Zhejiang University's faculties of Electrical and Mechanical Engineering, Wireless Engineering and Computer Science for thirty-seven years since 1956. He had also been a committee member of Zhejiang Political Consultative Conference for two terms in 1988 and 1993. Moreover, Professor Zhang has been involved in numerous research projects and studies in computing networks. Professor Zhang was awarded winner of the Zhejiang Province Science and Technology Advancement in 1989, 1991 and 1993 for three times. Professor Zhang has been appointed as an independent non-executive Director since September 2001.

**Mr. Cai Xiao Fu**, aged 77, is a senior engineer and was the chairman of Zhejiang Province Software Industry Association, inspecting and monitoring the development of Zhejiang Province IT industry. Mr. Cai graduated from Tsing Hua University's Faculty of Control Automation in July 1963. He attended the Polytechnic of Cranfield in the United Kingdom during October 1981 to January 1984 to research aeronautics and computer simulation devices. Mr. Cai has been appointed as an independent non-executive Director since September 2001.

**Mr. Gu Yu Lin**, aged 46, is the chairman of the audit committee and the remuneration committee of the Company. Mr. Gu graduated from the Faculty of Finance and Accounting of Fudan University in June 1997. Mr. Gu is an assistant accountant and is currently working in the general office of Zhejiang University. He was the independent supervisor (the "**Supervisor**") of the Company before and has been appointed as an independent non-executive Director since September 2004.

## SUPERVISORS

### Supervisors

**Mr. Xie Jian Ping**, aged 54, graduated from Shanghai College of Railway Public Security* (上海鐵路公安專科學校) majoring in public order management. Between 1984 and 1998, he served as a public security officer in Hangzhou Public Security Bureau. In 1999. Mr. Xie joined the Company as an office manager. He was then promoted as the manager of the procurement department and is currently the manager of data communication product department of the Company. Mr. Xie has been appointed as a Supervisor since September 2010.

**Mr. Wang Li Jun**, aged 44, graduated from Hangzhou Shipping Industrial College* (杭州船舶工業學校) in 1991 majoring in computer science. Prior to joining the Group, Mr. Wang served in a number of information technology and software companies and was responsible for corporate operations and technology development. In June 2007, Mr. Wang joined the Company as a product manager. He is currently the product director and assistant to general manager of 浙江蘭創通信有限公司, a 85% owned subsidiary of the Company. Mr. Wang has been appointed as a Supervisor since September 2010.

**Ms. Liu Chun Fang** *(resigned with effect from 17 February 2017)*, aged 50, graduated from Central University of Finance and Economics in 1995 majoring in finance and accounting. Ms. Liu was an accountant in the Technology Service Company under the Administrative Bureau of Chinese Academy of Sciences. She is currently a deputy manager of the finance department of Guoheng Fashion Media, a former shareholder holding approximately 6.74% of the issued share capital of the Company, who had disposed of its entire shareholding in the Company upon the completion of the Share Transfer. Ms. Liu has been appointed as a Supervisor since September 2010. As a result of the change of control of the Company, Ms. Liu resigned as a Supervisor with effect from 17 February 2017.

## Independent Supervisors

**Mr. Feng Pei Xian**, aged 79, is the Chief Secretariat of the Zhexiang Computer User Association and senior reporter of the China Computer News in Zhejiang Province. Mr. Feng graduated from Shangtong Industrial Institute. He was the assistant chief engineer of the 52nd Research Institute of Ministry of Information Industry of the PRC and Chief Editor of "External Computer Equipment". Mr. Feng has been appointed as an independent Supervisor since October 2001.

**Ms. Wang Xiao Li**, aged 49, graduated from Zhejiang Finance Institute in 1996 majoring in accounting. Ms. Wang obtained the certificate of intermediate accounting and has more than fifteen years of experience in financial management. Ms. Wang is currently the head of finance in 浙江浩天信息科技有限公司. Ms. Wang has been appointed as an independent Supervisor since September 2010.

## SENIOR MANAGEMENT

**Mr. Qi Jinsong**, aged 52, is the chief executive officer of the Company. He completed a two-year online professional course for economics offered by China University of Geosciences (Wuhan) (中國地質大學(武漢)) in April 2005. Mr. Qi has been appointed as general manager and president of the board of Zhejiang Shenghua Qiang Ci Material Company Limited* (浙江升華強磁材料有限公司) (currently known as Zhejiang Long Hua Shu Furniture Company Limited* (浙江龍華樹家具有限公司)) from January 2009 to February 2012. From February 2012 to April 2013, he was the deputy general manager and later the general manager of Shenghua Estate Group Company Limited* (升華地產集團有限公司). From April 2013 to July 2013, he was appointed as the deputy general manager of Zhejiang Shenghua Biok Biology Co., Ltd (浙江升華拜克生物股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600226). From July 2013 to June 2014, he was the deputy general manager of Meidu Group Company Limited* (美都集團股份有限公司). Mr. Qi has been appointed as the executive vice president (from June 2014 to July 2016) and the director (from May 2015 to July 2016) of Meidu Energy Company Limited* (美都能源股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600175). Since July 2016, he is the general manager and president of the board of Shenghua Estate Group Company Limited* (升華地產集團有限公司). Mr. Qi has been appointed as the chief executive officer of the Company with effect from 17 February 2017.

**Mr. Chen Ping** *(resigned as the chief executive officer of the Company with effect from 17 February 2017)*, aged 52, is the chairman, an executive Director, the compliance officer and the authorised representative of the Company. Mr. Chen is also a director of 杭州群思特通信服務有限公司, a 55% owned subsidiary of the Company, and a director of Zheda Lande Scitech Information Limited, a wholly-owned subsidiary of the Company. He is an advisor to students seeking their master degree and an associate professor at Zhejiang University. Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University with a bachelor degree and a master degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University, Mr. Chen has been involved in the research and development of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize in 1993. Mr. Chen had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University for seven years up to 1997. Mr. Chen published two computers networking academic textbooks and a number of academic research papers in the PRC. Mr. Chen joined the Company since May 1997. Mr. Chen resigned as the chief executive officer of the Company and was appointed as the compliance officer of the Company, both with effect from 17 February 2017.

**Mr. Luo An**, aged 53, is the vice president of the Company. He is an engineer and the general manager of Hangzhou Huaguang, a wholly-owned subsidiary of the Company. Mr. Luo is a graduate of master in software computing and theoretical science of Zhejiang University. Mr. Luo had worked at management positions in 浙江天昌集團高科技開發公司 and 湖州軍普電腦公司, respectively. Mr. Luo has over ten years of management experience in the field of information technology. Mr. Luo joined the Company since September 2009.

**Mr. Wang Yong Gui**, aged 42, is an executive Director, the secretary to the Board and the vice president of the Company. Mr. Wang graduated from the Institute of Managerial Economics in the Industrial University of Shenyang, with a bachelor degree in international finance. He has abundant experience in corporate governance of listed companies, investment and financing. Mr. Wang served in the securities department of Wafangdian Bearing Company Limited* (瓦房店軸承有限責任公司). Mr. Wang joined the Company since July 2002.

**Mr. Guan Zilong**, aged 29, is the financial controller of the Compamy. He graduated from China Jiliang College* (中國計量學院) (currently known as China Jiliang University* (中國計量大學)) and obtained a bachelor degree in management with major in financial management in June 2011. Mr. Guan obtained the Certificate for Passing All the Required Subjects of the National Uniform CPA Examination（註冊會計師全國統一考試全科合格証）issued by The Certified Public Accountants Examination Committee to The Ministry of Finance, PRC（中國財政部註冊會計師考試委員會）. Between July 2011 and May 2016, he was with Pan-China Certified Public Accountants LLP* (天健會計師事務所(特殊普通合夥)) and mainly handled annual audit works for listed companies and inital pubic offering works for proposed listing applicants. Mr. Guan has been appointed as the financial controller of the Company with effect from 17 February 2017.

**Mr. Wang Linhua** *(resigned as the vice president and financial controller of the Company with effect from 17 February 2017)*, aged 41, is an executive Director and is responsible for the whole spectrum of corporate finance of the Company. Mr. Wang graduated from the Xian University of Finance and Economics in accounting, and is a graduate of master in professional accounting in Zhongnan University of Economics and Law, and he has many years of experience in corporate finance management. Mr. Wang joined the Company since January 2008. Mr. Wang resigned as the vice president and financial controller of the Company with effect from 17 February 2017, but remains as an executive Director.

**Mr. Gao Zhan**, aged 45, is the vice president of the Company and general manager of 浙江蘭創通信有限公司, a 85% owned subsidiary of the Company. Mr. Gao graduated from the Department of Electronic Engineering of Hangzhou Institute of Electronic with a bachelor degree in radio technology. Mr. Gao has been in the areas of data service and telecommunication value-added service for many years and has extensive experiences in planning, operation, management and market operation of broadband data service and value-added business. Mr. Gao joined the Company since April 2005.

**Ms. Chan Ching Yi**, aged 42, is the company secretary and authorised representative of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Ms. Chan holds a bachelor degree in accountancy and has accumulated more than twenty years of financial and auditing experience. She is currently the company secretary of Shifang Holding Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1831). Ms. Chan joined the Company since September 2002.

* *For identification purposes only*

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Group recognises the importance of achieving and monitoring the high standard of corporate governance in realising the need and requirements of its business and the best interest of all of the Shareholders. The Group is fully committed to doing so. Throughout the year ended 31 December 2016, the Company has adopted and complied with the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules, except for the deviation from CG Code Provision A.2.1 as explained below.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing.

Mr. Chen Ping was both the chairman and the chief executive officer of the Company who was responsible for managing the Board and the Group's business during the year ended 31 December 2016. The Board considered that, after taking into account the Board structure and scope of business of the Group, there was no imminent need to separate the roles into two individuals as Mr. Chen Ping was perfectly capable of distinguishing the priority of these roles in which he had been acting. Subsequent to the reporting period, Mr. Chen Ping resigned as the chief executive officer of the Company and Mr. Qi Jinsong has been appointed as the new chief executive officer of the Company, both with effect from 17 February 2017. Mr. Chen Ping remains as an executive Director and the chairman of the Company.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2016. Having made specific enquiry with all Directors, the Company confirmed that all Directors had complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 December 2016.

## BOARD OF DIRECTORS

During the year and up to the date of this report, the composition of the Board was as follows:

### Executive Directors

Mr. Chen Ping *(Chairman and resigned as chief executive officer with effect from 17 February 2017)*
Mr. Wang Linhua
Mr. Wang Yong Gui
Mr. Chao Hong Bo *(resigned with effect from 17 February 2017)*
Mr. Xia Zhen Hai *(resigned with effect from 17 February 2017)*
Mr. Xie Fei *(resigned with effect from 17 February 2017)*

### Independent Non-Executive Directors

Mr. Zhang De Xin
Mr. Cai Xiao Fu
Mr. Gu Yu Lin

The biographical details of the Directors are set out on pages 11 and 12 of this annual report.

The Board's primary responsibilities are to formulate the Group's long-term corporate strategy, oversee the management of the Group, evaluate the performance of the Group and enhance long-term shareholder value. The management of the Group is responsible for executing the strategies adopted by the Board and managing the day-to-day activities of the Group.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company.

During the year, the Board complied at all times with the requirement of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors and at least one of them has appropriate professional qualifications or accounting or related financial management expertise.

During the year, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All future Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The list of Directors and their role and function are published on the GEM website.

Each Director has ensured that he could give sufficient time, commitments and attention to the affairs of the Company for the year.

The Board has been provided with monthly financial summaries which contain year-to-date key figures of the Group. The monthly financial summaries have given a balanced and understandable assessment of the Group's performance, financial position and prospects in sufficient detail.

Pursuant to the CG Code, the 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 is made with thorough and necessary information. The Company provides introduction and information to newly appointed Directors on their legal and other responsibilities as directors and their functions. As part of an ongoing process of directors' training, the Directors are updated with latest developments regarding the GEM 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 and internal forum or training courses on relevant topics which may count towards continuous professional development training. The Company has devised a training record in order to assist the Directors to record the training they have undertaken. During the year, all Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage has been reviewed regularly.

The following table shows the attendance of individual Directors at the meetings of the Board, other Board committees and the Shareholders held during the year:

| Director | Meeting attended | | | | |
|---|---|---|---|---|---|
| | Board | Audit committee | Remuneration committee | Nomination committee | Shareholders |
| **Executive Directors** | | | | | |
| Mr. Chen Ping | 8/8 | – | 1/1 | 1/1 | 2/2 |
| Mr. Wang Linhua | 6/8 | – | – | – | 2/2 |
| Mr. Wang Yong Gui | 8/8 | – | – | – | 2/2 |
| Mr. Chao Hong Bo *(resigned with effect from 17 February 2017)* | 6/8 | – | – | – | 2/2 |
| Mr. Xia Zhen Hai *(resigned with effect from 17 February 2017)* | 5/8 | – | – | – | 1/2 |
| Mr. Xie Fei *(resigned with effect from 17 February 2017)* | 7/8 | – | – | – | 2/2 |
| **Independent Non-Executive Directors** | | | | | |
| Mr. Zhang De Xin | 8/8 | 5/5 | – | 1/1 | 2/2 |
| Mr. Cai Xiao Fu | 8/8 | 5/5 | 1/1 | – | 2/2 |
| Mr. Gu Yu Lin | 6/8 | 5/5 | 1/1 | 1/1 | 2/2 |

In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

Moreover, the company secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The company secretary also keeps the Board minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

The appointment and re-election of Directors need to be approved by meetings of the Shareholders. The term of each Director is three years, and can be re-elected in succession. The resignation and termination of a Director should need reasonable explanation. The articles of association of the Company (the "**Articles of Association**") stipulates that the terms of all Directors are three years and can continue to hold office when re-elected. Any Director to be appointed for replacing a vacancy must be thereafter elected in the following meeting of the Shareholders. The Company does not require the rotation of Directors in three years. Instead, Directors are re-elected by meeting of the Shareholders upon the expiry of their three years terms, and can be re-appointed.

## BOARD COMMITTEES

To maintain a high level of corporate governance standard, the Board has set up three committees as follows:

- **Audit committee**

  The Company has an audit committee with written terms of reference in compliance with the requirements as set out in the CG Code. The committee is currently composed of three independent non-executive Directors, namely, Mr. Gu Yu Lin, Mr. Zhang De Xin and Mr. Cai Xiao Fu; and is chaired by Mr. Gu Yu Lin.

  The primary duties of the committee are to review the Company's annual report, consolidated financial statements and audited annual results, half-yearly report and quarterly reports and to advise and comment thereon to the Board. The committee is also responsible for reviewing and supervising the financial reporting process of the Group. In the course of doing so, the committee has met with the Company's management several times and the external auditor once during the year ended 31 December 2016. The Committee has reviewed, among other things, the audited financial results and annual report of the Group for the year ended 31 December 2016.

- **Remuneration committee**

  The Company has a remuneration committee with written terms of reference in alignment with the provisions as set out in the CG Code. The committee comprises two independent non-executive Directors, namely, Mr. Gu Yu Lin, Mr. Cai Xiao Fu, and one executive Director, Mr. Chen Ping, the chairman of the Company; and is chaired by Mr. Gu Yu Lin.

  The main responsibilities of the committee are to review and endorse the remuneration policies of the Directors and senior management and to make recommendations to the Board for the remuneration of the Directors. During the year, the committee discussed with the chief executive officer of the Company on its proposals relating to the remuneration of the Directors and senior management and has ensured that no Director was involved in deciding his own remuneration.

- **Nomination committee**

  The Company has a nomination committee with written terms of reference in alignment with the provisions as set out in the CG Code. The committee comprises two independent non-executive Directors, namely, Mr. Zhang De Xin, Mr. Gu Yu Lin, and one executive Director, Mr. Chen Ping, the chairman of the Company; and is chaired by Mr. Zhang De Xin.

  The responsibilities of the committee include reviewing the structure, size and composition of the Board; identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on selection of individual nominated for directorship; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executives; and determining the policy for nomination of Directors. During the year, the committee has considered the past performance, qualification and general market conditions in selecting and recommending prospective candidates for directorship.

## CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of terms of reference adopted by the Board in compliance with the CG Code, which includes (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. During the year, the Board has reviewed the corporate governance policy of the Company, the duties of the Board and its committees and the corporate governance report.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has the overall responsibility for maintaining sound risk management and internal control systems and reviewing their effectiveness.

Measures have been established to provide an effective risk management system to identify, evaluate and manage significant risks, which included a defined organisational structure with clear lines of responsibility and authority; an appropriate management reporting system; and a periodic risk self-assessment conducted by major business units to ensure the proper monitoring of significant risks and the adequacy of relevant risk mitigation plans. The aforementioned measures also ensured the proper handling and dissemination of inside information.

Risk management and internal control systems have been designed for managing the Group's significant risks; safeguarding the Group's assets; maintaining proper accounting records; ensuring compliance with relevant laws and regulations; and providing reasonable assurance against material misstatement, loss or fraud. The purpose of the Group's risk management and internal control systems is to provide reasonable, but not absolute assurance, against material misstatement or loss and to manage rather than eliminate risks of failure in operational system in order to achieve the Group's business objectives.

The Board has employed an ongoing process to review the effectiveness of the risk management and internal control systems, which consisted mainly of enquiry; discussion; and validation through observation and inspection. During the reporting year, the Board held one meeting to appraise the validity of the Group's risk management and internal control systems in an all-round way, with Supervisors and part of the senior executives seated in the meeting. The Board's annual review for the year ended 31 December 2016 as aforementioned has satisfactorily covered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programs and budget. The Board was of the view that the risk management and internal control systems were effective and adequate; and there were no irregularities, improprieties, fraud or other deficiencies that suggested material deficiency in the Group's the risk management and internal control systems.

The Board has decided to establish an internal audit department and perfect the internal control system of the Group. The Company is in the process of recruiting suitable manpower and qualified personnel as the head of the internal audit department, aiming to establish an effective internal audit department to cope with the present structure and scale of operations of the Group.

## FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of consolidated financial statements, on a going concern basis, which give a true and fair view. In preparing consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is the independent auditor's responsibility to form an independent opinion, based on their audit, on those consolidated financial statements and to report their opinion to the Shareholders. The responsibilities of the independent auditor are set out in the independent auditor's report on pages 31 to 34 of this annual report.

## AUDITOR'S REMUNERATION

During the year, the Group incurred approximately RMB489,000 for remunerations in respect of audit services provided by the Company's auditor.

## COMPANY SECRETARY

Ms. Chan Ching Yi is the company secretary of the Company. Ms. Chan is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered and Certified Accountants. She reported to the Board and assisted the Board in functioning effectively and efficiently. During the year, Ms. Chan undertook not less than fifteen hours of professional training to update her skill and knowledge.

## CHANGES IN ARTICLES OF ASSOCIATION

Pursuant to the special resolution passed by the Shareholders at their extraordinary general meeting held on 23 November 2015, the Articles of Association was amended to reflect the new capital structure of the Company resulting from the issue of new H Shares upon the completion of the 2015 Placing. The aforementioned changes in the Articles of Association were effect on 28 November 2016.

## INVESTOR RELATIONS

The Company disclosed all necessary information to the Shareholders in compliance with the GEM Listing Rules. The Company also replied to enquires from the Shareholders timely. The Directors host the annual general meeting each year to meet the Shareholders and answer to their enquiries.

## SHAREHOLDERS' RIGHTS

### 1. Convene an extraordinary general meeting

Two or more Shareholders holding at the date of deposit of the requisition an aggregate of ten(10) per cent or more of the Shares carrying the right of voting of the Company (the "**Eligible Shareholders**") shall at all times have the right, by written requisition to the Company, to convene an extraordinary general meeting of the Shareholders.

### 2. Send enquiries to the Board

The Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Room 1116 – 1119, Sun Hung Kai Center, 30 Harbour Road, Wanchai, Hong Kong by post for the attention of the company secretary of the Company. In addition, the Company's website provides telephone number and fax number by which enquiries may be put to the Board.

### 3. Make proposals at general meetings

Eligible Shareholders who wish to convene an extraordinary general meeting of the Shareholders must deposit a written requisition signed by the Eligible Shareholders concerned to the principal place of business of the Company in Hong Kong as set out in the paragraph above, for the attention of the company secretary of the Company.

The requisition must state clearly the name of the Eligible Shareholders concerned, their shareholding, the reason to convene an extraordinary general meeting, the agenda proposed to be included as well as the details of the business proposed to be transacted in the extraordinary general meeting.

On behalf of the Board
**Chen Ping**
*Chairman*

6 March 2017
Hangzhou City, the PRC

# ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES REPORT

The Board is pleased to present the environmental and social responsibilities report of the Group for the year ended 31 December 2016, which covers the Company and its principal subsidiaries as set out in note 31 to the consolidated financial statements.

## ENVIRONMENTAL

### 1. Emissions

The Group is principally engaged in the provision of telecommunication solutions, trading of hardware and computer software, provision of telecommunication value-added services and investment holding. The Group's business does not directly involve any natural resource emissions.

### 2. Use of resources

The key environmental impacts from the Group's operations mainly related to paper and energy consumption and the related emissions. To achieve environment protection, the Group encouraged its employees to reduce paper, electricity and other energy consumption throughout all of its operations.

### 3. The environment and natural resources

The Group is committed to environmental responsibility through minimizing adverse effects on the community, environment and natural resources while safeguarding the health and safety of the public. Although the Group's business did not involve any direct natural resource emissions, the Group executed practices that minimised its indirect impact on its environment and natural resources, such as emissions associated with the production of papers and the generation of energy. The Group has raised environmental awareness for its employee and encourage its employees to reduce paper, electricity and other energy consumption by shifting to e-statement or scanning; rationalising the daily use of all computers and office equipment, electrical lighting and air-conditioners; and switching them off when the office is closed at the end of the day.

## SOCIAL

### 1. Employment and labour practices

#### (i) Employment

The Group considers that employees are valuable assets of the Group and is committed to building an amicable and rewarding relationship with its employees.

Employees were remunerated with salary packages commensurate with their job nature, qualification, experience and performance. A brief description of the Group's remuneration policy is set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 10 of this annual report.

#### (ii) Working conditions, health and safety

The Group also worked its best to cultivate a harmonious workplace which enhanced employee performance and company-employee relationship. In addition, the Group strived to provide a safe and healthy work environment. During the year under review, zero serious work related injuries on staffs were resulted from the Group's operations.

#### (iii) Development and training

Training was provided to employees to enhance job performance and progression within the Group. A brief description of the Group's staff development and training policy is set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 10 of this annual report.

**(iv) Labour standards**

During the year under review, the Group has complied with labour laws and other related government regulations in the PRC. The Group has not employed staff who are below eighteen years of age. No employee has been paid less than the minimum wage or has been required to work over the maximum working hour specified by the government regulations. Details of the retirement benefit schemes of the Group are set out in note 29 to the consolidated financial statements.

## 2. Operating practices

**(i) Supply chain management**

The Group strived to be the national strategic business partners of its customers by providing products and services that meet or exceed customers' requirements for quality, reliability and value. In accomplishing this goal, the Group endeavoured to build long-term and mutually beneficial relationships with its suppliers, which have played a crucial role in providing high quality products and ensuring reliable delivery to its customers.

**(ii) Product responsibility**

The Group is principally engaged in the provision of telecommunication solutions, trading of hardware and computer software, provision of telecommunication value-added services and investment holding. As such, the Group does not have significant impacts in relation to product responsibility. During the year under review, except for the Arbitration, the details of which are set out in the sub-section headed "Arbitration" under the section headed "Management Discussion and Analysis" on pages 4 to 10 of this annual report, the Group has not involved in any significant claims or litigations relating to its business, operations and products.

**(iii) Anti-corruption**

The Group commits to maintain a high standard of business ethics and has implemented policies and practices to prohibiting bribery and corruption. During the year under review, no bribery or corruption cases relating to the business and operations of the Group were reported.

**(iv) Community**

The Group takes pride in participating in community events and volunteer activities as a key component of its commitment to corporate responsibility. The Group encouraged its employees to involve in engagements which provide opportunities for the Group and its employees to contribute in improving local communities.

On behalf of the Board
**Chen Ping**
*Chairman*

6 March 2017
Hangzhou City, the PRC

# REPORT OF THE DIRECTORS

The Board is pleased to present its annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of telecommunication solutions, trading of hardware and computer software, provision of telecommunication value-added services and investment holding. The businesses of the Company's subsidiaries are set out in note 31 to the consolidated financial statements.

An analysis of the Group's turnover and loss before tax for the year on business segment activities basis has been set out in note 7 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on page 3 and pages 4 to 10 of this annual report, respectively.

## RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2016 and its state of affairs as at that date are set out in the consolidated financial statements on pages 35 to 72 of this annual report.

The Board does not recommend the payment of a final dividend and other appropriations for the year.

## RESERVES AVAILABLE FOR DISTRIBUTION

At 31 December 2016, the Group did not have reserves available for distribution to owners of the Company (2015: nil).

## PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

## BORROWINGS AND INTERESTS CAPITALISATION

The Group did not have bank loans or capitalise any interest during the year (2015: nil).

## SHARE CAPITAL

Details of the Company's share capital at the end of the reporting period are set out in note 23 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 37 of this annual report.

## RETIREMENT PLAN

Details of the retirement benefit schemes of the Group are set out in note 29 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 76.97% of the Group's turnover and the largest customer of the Group accounted for approximately 34.54% of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 87.25% of the Group's direct purchases and the largest supplier of the Group accounted for approximately 40.17% of the Group's direct purchases for the year.

To the knowledge of the Directors, included in the Group's five largest customers were Shanghai Xiao Tong Networking Technology CO. LTD * (上海曉通網絡技術有限公司) and Guangzhou Xiao Tong Networking Technology CO. LTD* (廣州市曉通網絡科技有限公司), which are wholly-owned subsidiaries of Xiao Tong Networking Technology CO. LTD* (北京曉通網絡科技有限公司) ("**Beijing Xiao Tong**"). Insigma Technology, in turn, held 19% minority interest (a non-controlling interest) in Beijing Xiao Tong. Save as disclosed above, none of the Directors, their respective associates, or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers and five largest suppliers of the Group for the year ended 31 December 2016.

## FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2016 and the Group's assets and liabilities as at 31 December 2012, 2013, 2014, 2015 and 2016 is set out on page 73 of this annual report.

## DIRECTORS AND SUPERVISORS

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

### Executive Directors

Mr. Chen Ping *(Chairman and resigned as chief executive officer with effect from 17 February 2017)*
Mr. Wang Linhua
Mr. Wang Yong Gui
Mr. Chao Hong Bo *(resigned with effect from 17 February 2017)*
Mr. Xia Zhen Hai *(resigned with effect from 17 February 2017)*
Mr. Xie Fei *(resigned with effect from 17 February 2017)*

### Independent Non-Executive Directors

Mr. Zhang De Xin
Mr. Cai Xiao Fu
Mr. Gu Yu Lin

### Supervisors

Mr. Xie Jian Ping *(Chairman)*
Mr. Wang Li Jun
Ms. Liu Chun Fang *(resigned with effect from 17 February 2017)*

### Independent Supervisors

Mr. Feng Pei Xian
Ms. Wang Xiao Li

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each Director and Supervisor has entered into a three year service agreement with the Company expiring on 20 September 2019. All appointments are subject to termination in certain circumstances as stipulated in the relevant service agreement. In the event that the appointment of the Director or Supervisor is terminated in the annual general meeting of the Shareholders without any reason, the relevant Director or Supervisor may claim for compensation from the Company.

Saved as disclosed above, none of the Directors or Supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management are set out on pages 11 to 14 of this annual report.

## DIRECTORS' AND SUPERVISORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

The Group has adopted a remuneration policy as set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 10 of this annual report. The Directors', Supervisors' and senior management's emoluments are determined by the Board with reference to their duties, responsibilities, performance and recommendations by the remuneration committee of the Company.

Details of the Directors' and Supervisors' remuneration and that of the highest paid employees are set out in notes 9 and 10 to the consolidated financial statements, respectively.

## DIRECTORS' SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 2016, none of the Directors, Supervisors or the Company's chief executives had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future ordinance (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) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by Directors to be notified to the Company and the Stock Exchange:

### Long position in shares

| Name | Capacity and nature of interest | Number of shares held | Percentage of beneficial interests in the Company's share capital |
|---|---|---|---|
| *Director and former chief executive officer* | | | |
| Mr. Chen Ping | Beneficial owner | 36,392,320 Domestic Shares (Note 1) | 7.18% |
| | Interest of a controlled corporation | 33,961,432 Domestic Shares (Note 2) | 6.70% |
| *Director* | | | |
| Mr. Xia Zhen Hai *(resigned with effect from 17 February 2017)* | Interest of a controlled corporation | 34,117,808 Domestic Shares (Note 3) | 6.74% |

Notes:

(1) Pursuant to the Share Transfer Agreement, Zhejiang Shenghua conditionally agreed to acquire and Mr. Chen Ping conditionally agreed to sell 9,098,080 Domestic Shares; and the Share Transfer was completed on 20 January 2017.

(2) These 33,961,432 Domestic Shares are registered under the name of Hangzhou Gongjia, a limited liability company established in the PRC. Hangzhou Gongjia is wholly-owned by Shanghai Aifusheng Information Technology Co., Ltd.* (上海艾孚生信息技術有限公司) ("**Shanghai Aifusheng**"), a limited liability company established in the PRC and is owned by Mr. Chen Ping, an executive Director and the former chief executive officer of the Company, and an associate of Mr. Chen Ping as to 90% and 10%, respectively. For the purposes of the SFO, Mr. Chen Ping is deemed to be interested in the 33,961,432 Domestic Shares held by Hangzhou Gongjia. Mr. Chen Ping is a director of each of Hangzhou Gongia and Shanghai Aifusheng.

Pursuant to the Share Transfer Agreement, Zhejiang Shenghua conditionally agreed to acquire and Hangzhou Gongjia conditionally agreed to sell the 33,961,432 Domestic Shares; and the Share Transfer was completed on 20 January 2017.

(3) These 34,117,808 Domestic Shares are registered under the name of Shanghai Longtail, a limited company established in the PRC. Shanghai Longtail was held as to 40% by Mr. Xia Zhen Hai. For the purposes of the SFO, Mr. Xia Zhen Hai is deemed to be interested in the 34,117,808 Domestic Shares held by Shanghai Longtail.

Pursuant to the Share Transfer Agreement, Zhejiang Shenghua conditionally agreed to acquire and Shanghai Longtail conditionally agreed to sell the 34,117,808 Domestic Shares; and the Share Transfer was completed on 20 January 2017.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

Save as disclosed herein, during the year ended 31 December 2016, none of the Directors, Supervisors or the Company's chief executives was granted options to subscribe for the Shares. As at 31 December 2016, none of the Directors, Supervisors or the Company's chief executives or any of their spouses and children under 18 years of age had any interest in, or had been granted any interest in, or had been granted, or exercised, had any rights to subscribe for the Shares (or warrants or debentures, if applicable) or to acquire the Shares.

## COMPETING INTERESTS

None of the Directors or the management Shareholders and their respective associates (as defined under the GEM Listing rules) had any interest in a business which competes or may compete with the business of the Group.

## INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, Supervisors or the Company's chief executives, as at 31 December 2016, there were no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the Shares or underlying Share which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company; or who were substantial Shareholders as recorded in the register maintained under section 336 of the SFO:

### Long position in shares

| Name | Capacity and nature of interest | Number of shares held | Percentage of beneficial interests in the Company's share capital |
|---|---|---|---|
| Zhejiang Shenghua | Beneficial owner and interest of a controlled corporation | 217,126,930 Domestic Shares (Note 1) and 49,000,000 H Shares (Note 2) | 52.54% |
| Rise Sea | Beneficial owner | 49,000,000 H Shares (Note 2) | 9.67% |
| Deqing Huisheng Investment Company Limited* (德清匯升投資有限公司) ("**Deqing Huisheng**") | Interest of a controlled corporation | 217,126,930 Domestic Shares (Note 1) and 49,000,000 H Shares (Note 2) | 52.54% |
| Mr. Xia Shilin | Interest of a controlled corporation | 217,126,930 Domestic Shares (Note 1) and 49,000,000 H Shares (Note 2) | 52.54% |

| Name | Capacity and nature of interest | Number of shares held | Percentage of beneficial interests in the Company's share capital |
|---|---|---|---|
| Ms. Qian Xiaomei | Interest of spouse | 217,126,930 Domestic Shares and 49,000,000 H Shares (Note 3) | 52.54% |
| Insigma Technology | Beneficial owner | 81,802,637 Domestic Shares (Note 4) | 16.15% |
| Shanghai Longtail | Beneficial owner | 34,117,808 Domestic Shares (Note 5) | 6.74% |
| Guoheng Fashion Media | Beneficial owner | 34,117,800 Domestic Shares (Note 6) | 6.74% |
| Fujian Huatong Property Ltd.* (福建華通置業有限公司) ("**Fujian Huatong**") | Interest of a controlled corporation | 34,117,800 Domestic Shares (Notes 7 and 6) | 6.74% |
| Hangzhou Gongjia | Beneficial owner | 33,961,432 Domestic Shares (Note 8) | 6.70% |
| Shanghai Aifusheng | Interest of a controlled corporation | 33,961,432 Domestic Shares (Notes 9 and 8) | 6.70% |
| Mr. Wong Nga Chi | Beneficial owner | 47,000,000 H Shares | 9.28% |
| Ms. Yin Cailian | Interest of spouse | 47,000,000 H Shares (Note 10) | 9.28% |
| Ms. Ko Chiu Yu | Beneficial owner | 36,500,000 H Shares | 7.21% |
| Ms. Gao Jie | Beneficial owner | 17,500,000 H Shares | 3.45% |
| Mr. Fong For | Beneficial owner | 16,560,000 H Shares | 3.27% |

Notes:

(1) Pursuant to the Share Transfer Agreements, Zhejiang Shenghua conditionally agreed to acquire and the Vendors conditionally agreed to sell an aggregate of 217,126,930 Domestic Shares; and the Share Transfers were completed on 20 January 2017.

Zhejiang Shenghua, a limited company established in the PRC, is directly interested in these 217,126,930 Domestic Shares. Zhejiang Shenghua is owned as to approximately 69.54% by Deqing Huisheng, a limited liability company established in the PRC, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in these 217,126,930 Domestic Shares.

(2) These 49,000,000 H Shares are registered under the name of Rise Sea. Rise Sea is a limited liability company incorporated in Hong Kong and is wholly-owned by Zhejiang Shenghua. Zheijiang Shengua is owned as to approximately 69.54% by Deqing Huisheng, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Zheijiang Shengua, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 49,000,000 H Shares held by Rise Sea.

(3) Ms. Qian Xiaomei is the spouse of Mr. Xia Shilin and therefore she and Mr. Xia Shilin are deemed to be interested in each other's Shares under the SFO.

(4) Pursuant to the Share Transfer Agreement, Zhejiang Shenghua conditionally agreed to acquire and Insigma Technology conditionally agreed to sell the 81,802.637 Domestic Shares; and the Share Transfer was completed on 20 January 2017.

(5) Pursuant to the Share Transfer Agreement, Zhejiang Shenghua conditionally agreed to acquire and Shanghai Longtail conditionally agreed to sell the 34,117,808 Domestic Shares; and the Share Transfer was completed on 20 January 2017.

(6) Pursuant to the Share Transfer Agreement, Zhejiang Shenghua conditionally agreed to acquire and Guoheng Fashion Media conditionally agreed to sell the 34,117,800 Domestic Shares; and the Share Transfer was completed on 20 January 2017.

(7) These 34,117,800 Domestic Shares are registered under the name of Guoheng Fashion Media. Guoheng Fashion Media is a limited company established in the PRC and is held as to approximately 42.77% by Fuijian Huatong. For the purposes of the SFO, Fuijian Huatong is deemed to be interested in the 34,117,800 Domestic Shares held by Guoheng Fashion Media.

(8) Pursuant to the Share Transfer Agreement, Zhejiang Shenghua conditionally agreed to acquire and Hangzhou Gongjia conditionally agreed to sell the 33,961,432 Domestic Shares; and the Share Transfer was completed on 20 January 2017.

(9) These 33,961,432 Domestic Shares are registered under the name of Hangzhou Gongjia. Hangzhou Gongjia is a wholly-owned subsidiary of Shanghai Aifusheng which is in turn owned by Mr. Chen Ping, an executive Director and the former chief executive officer of the Company, and an associate of Mr. Chen Ping as to 90% and 10%, respectively. For the purposes of the SFO, Shanghai Aifusheng is deemed to be interested in the 33,961,432 Domestic Shares held by Hangzhou Gongjia.

(10) Ms. Yin Cailian is the spouse of Mr. Wong Nga Chi and therefore she and Mr. Wong Nga Chi are deemed to be interested in each other's H Shares under the SFO.

## RELATED AND CONNECTED PARTY TRANSACTIONS

Except otherwise disclosed in note 28 to the consolidated financial statements, the Group had no transactions which need to be disclosed as related party transactions or connected transactions in accordance with the requirements of the GEM Listing Rules during each of the two years ended 31 December 2016.

## SHARE OPTION SCHEME

The Company's share option scheme conditionally approved by a resolution of the Shareholders dated 20 April 2002 (the "**Share Option Scheme**") has been expired on 20 April 2012. No options had been granted by the Company under the Share Option Scheme since its adoption.

## COMPLIANCE OFFICER AND COMPANY SECRETARY

Mr. Chao Hong Bo resigned as the compliance officer of the Company and Mr. Chen Ping was appointed as the new compliance officer of the Company, both with effect from 17 February 2017. Ms. Chan Ching Yi is the company secretary of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2016.

## PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the Articles of Association.

## AUDIT COMMITTEE

The Company established an audit committee in November, 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The primary duties of the audit committee are to review the Group's annual report and consolidated financial statements, audited annual results, half-year report and quarterly reports and provide advice and comments thereon to the Board and to review and to provide supervision over the financial reporting process of the Group. The audit committee comprises three independent non-executive Directors, Mr. Gu Yu Lin, Mr. Zhang De Xin and Mr. Cai Xiao Fu whereas Mr. Gu Yu Lin is the chairman. During the year, the audit committee reviewed the first quarterly report, half-year report, the third quarterly report of the Group for the year 2016 and the annual report of the Group for the year 2015. The audit committee also reviewed the annual report of the Group for the year 2016.

## AUDITOR

During the year, SHINEWING (HK) CPA Limited was re-appointed as auditor of the Company. The consolidated financial statements of the Group for each of the three years ended 31 December 2016 was audited by SHINEWING (HK) CPA Limited.

On behalf of the Board
**Chen Ping**
*Chairman*

6 March 2017
Hangzhou City, the PRC

* *For identification purposes only*

# REPORT OF THE SUPERVISORY COMMITTEE

The supervisory committee (the "**Supervisory Committee**") of the Company is pleased to present its annual report for the year 2016.

## SUPERVISORY COMMITTEE OPERATION REVIEW

In the year, two meetings of the Supervisory Committee were held to review, among other things, the operating results of the Group. During the year, the Supervisory Committee has examined the legitimacy and validity, pursuant to the investiture of the Shareholders' meeting and the Articles of Association, upon convocation and voting procedures of meetings of the Board. We inspected whether the resolutions passed by the Board corresponded with the PRC laws and the stipulations of the Articles of Association or not, and adduced feasible proposals. The Supervisory Committee considered that the convocation and the voting procedures of the Board meetings corresponded with the PRC laws and the Articles of Association. The Shareholders' meeting's resolutions have been executed effectively. The Supervisory Committee has obtained the respect and its suggestions have been accepted.

## FINANCIAL POSITION OF COMPANY

In the year, the Supervisory Committee has supervised and inspected the operating results of the Group. It is considered that the report issued by the auditor of the Group presented truly, precisely and fairly the operating results of the Group. The consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards and has compiled with the PRC statutory regulations correlated with accounting matters.

## ETHICS OF DIRECTORS AND SENIOR MANAGEMENT

In the year, the Supervisory Committee executed its obligations and supervised on the ethics of the Directors and senior management, in order to raise the Directors' and senior management's onus to perform their duties with good faith and due diligence, and avoid the operational risk incurable to the Group or damages to the interest of the Shareholders because of personal fault.

During the year, the Supervisory Committee inspected and found that the Directors and the managers had not violated the PRC laws, regulations, and the Articles of Association when executing their duties. The Directors and senior management had performed their duties and there was no occurrence of impairment to Shareholders' interest either.

On behalf of the Supervisory Committee
**Xie Jian Ping**
*Chairman of the Supervisory Committee*

6 March 2017
Hangzhou City, the PRC

# INDEPENDENT AUDITOR'S REPORT

**SHINEWING** (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

**TO THE MEMBERS OF ZHEDA LANDE SCITECH LIMITED**
**浙江浙大網新蘭德科技股份有限公司**
*(established as a joint stock limited company in the People's Republic of China)*

## OPINION

We have audited the consolidated financial statements of Zheda Lande Scitech Limited ("the Company") and its subsidiaries ("the Group") set out on pages 35 to 72, which comprise the consolidated statement of financial position as at 31 December 2016, and the 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

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

### Recoverability of trade receivables

Refer to note 19 to the consolidated financial statements and the accounting policies on page 47 to 48.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| As at 31 December 2016, the Group had trade receivables of approximately RMB57,135,000, representing 51% of the Group's total current assets.<br><br>The management assessed the recoverability of trade receivables by taken into account of number of factors, including the credit worthiness of customers and their ability to settle the amounts due. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flow which requires a significant level of management judgement as the Group needs to assess the financial health of each trade debtors and ultimate realisation of these receivables individually. | Our procedures were designed to review the management's process of impairment assessment and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts.<br><br>We have challenged the assumptions and critical judgement used by the management by assessing the reliability of the management's past estimates and taking into account the ageing of receivables at year end and cash received after year end, as well as the recent creditworthiness of each debtor. |

## OTHER INFORMATION

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit committee of the Company ("Audit Committee") is responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lau Kai Wong.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Lau Kai Wong**
Practising Certificate Number: P06623

Hong Kong
6 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | NOTES | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| Turnover | 7 | **140,486** | 64,654 |
| Cost of sales | | **(125,308)** | (50,432) |
| Gross profit | | **15,178** | 14,222 |
| Other operating income | 8 | **3,812** | 938 |
| Distribution and selling expenses | | **(10,675)** | (10,699) |
| General and administrative expenses | | **(12,388)** | (14,910) |
| Loss before tax | | **(4,073)** | (10,449) |
| Income tax credit | 11 | **140** | – |
| Loss and total comprehensive expense for the year | 12 | **(3,933)** | (10,449) |
| Loss and total comprehensive expense for the year attributable to: | | | |
| Owners of the Company | | **(3,530)** | (9,381) |
| Non-controlling interests | | **(403)** | (1,068) |
| | | **(3,933)** | (10,449) |
| Loss per share | | | |
| Basic and diluted (RMB) | 14 | **(0.70) cents** | (2.54) cents |

# CONSOLIDATED STATMENT OF FINANCIAL POSITION

As at 31 December 2016

| | NOTES | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | 15 | **773** | 1,297 |
| Intangible assets | 16 | **–** | – |
| Goodwill | 17 | **–** | – |
| | | **773** | 1,297 |
| **Current assets** | | | |
| Inventories | 18 | **1,861** | 2,191 |
| Trade receivables | 19 | **57,135** | 1,883 |
| Prepayments and other receivables | 20 | **3,197** | 4,559 |
| Restricted bank balance | 21 | **–** | 2,075 |
| Bank balances and cash | 21 | **49,388** | 104,586 |
| | | **111,581** | 115,294 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **8,749** | 8,445 |
| Receipt in advance from customers | | **179** | 787 |
| Income tax payables | | **1,615** | 1,615 |
| | | **10,543** | 10,847 |
| **Net current assets** | | **101,038** | 104,447 |
| **Net assets** | | **101,811** | 105,744 |
| **Capital and reserves** | | | |
| Paid-in capital | 23 | **50,655** | 50,655 |
| Reserves | 24 | **48,222** | 51,752 |
| Equity attributable to owners of the Company | | **98,877** | 102,407 |
| Non-controlling interests | | **2,934** | 3,337 |
| **Total equity** | | **101,811** | 105,744 |

The consolidated financial statements on pages 35 to 72 were approved and authorised for issue by the Board of Directors on 6 March 2017 and are signed on its behalf by:

**Mr. CHEN Ping**
*Director*

**Mr. WANG Yong Gui**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Paid-in capital** RMB'000 | **Share premium** RMB'000 | **Statutory surplus reserve** RMB'000 (note 24) | **Accumulated losses** RMB'000 | **Total** RMB'000 | **Non-controlling interests** RMB'000 | **Total equity** RMB'000 |
| At 1 January 2015 | 35,655 | 76,570 | 10,567 | (50,770) | 72,022 | 4,405 | 76,427 |
| Loss and total comprehensive expense for the year | – | – | – | (9,381) | (9,381) | (1,068) | (10,449) |
| Issue of new shares by way of placing | 15,000 | 25,171 | – | – | 40,171 | – | 40,171 |
| Share issue expenses | – | (405) | – | – | (405) | – | (405) |
| At 31 December 2015 and at 1 January 2016 | 50,655 | 101,336 | 10,567 | (60,151) | 102,407 | 3,337 | 105,744 |
| Loss and total comprehensive expense for the year | – | – | – | (3,530) | (3,530) | (403) | (3,933) |
| At 31 December 2016 | 50,655 | 101,336 | 10,567 | (63,681) | 98,877 | 2,934 | 101,811 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before taxation | **(4,073)** | (10,449) |
| Adjustments for: | | |
| Write back of impairment loss on trade receivables | **(10)** | – |
| Write-off of other payables | **(1,000)** | – |
| Depreciation of plant and equipment | **689** | 695 |
| Interest income | **(292)** | (80) |
| Loss (gain) on write-off/disposal of plant and equipment | **15** | (19) |
| Operating cash flows before movements in working capital | **(4,671)** | (9,853) |
| Decrease in inventories | **330** | 95 |
| (Increase) decrease in trade receivables | **(55,242)** | 4,841 |
| Decrease in prepayments and other receivables | **841** | 32,909 |
| Increase in trade and other payables | **1,304** | 137 |
| (Decrease) increase in receipt in advance from customers | **(608)** | 321 |
| Decrease (increase) in restricted bank balance | **2,075** | (697) |
| Cash generated from operations | **(55,971)** | 27,753 |
| Tax refund | **140** | – |
| **NET CASH (USED IN) FROM OPERATING ACTIVITIES** | **(55,831)** | 27,753 |
| **INVESTING ACTIVITIES** | | |
| Repayment from related parties (included in other receivables) | **521** | 14,945 |
| Proceeds from disposal of plant and equipment | **–** | 108 |
| Interest received | **292** | 80 |
| Purchase of plant and equipment | **(180)** | (136) |
| Release of time deposits with original maturity of more than three months | **–** | 2,029 |
| **NET CASH FROM INVESTING ACTIVITIES** | **633** | 17,026 |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issue of new shares | **–** | 40,171 |
| Share issue expenses | **–** | (405) |
| Repayment to related parties (included in other payables) | **–** | (5,799) |
| **CASH FROM FINANCING ACTIVITIES** | **–** | 33,967 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(55,198)** | 78,746 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **104,586** | 25,840 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR,** represented by bank balances and cash (note 21) | **49,388** | 104,586 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 1. GENERAL

The Company was established in the People's Republic of China (the "PRC") as a joint stock company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is principally engaged in the provision of telecommunication solutions, trading of hardware and computer software, provision of telecommunication value-added services and investment holding. The principal activities of its subsidiaries are set out in note 31.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(S)")

In the current year, the Group has applied the following new and revised IFRSs, which include IFRSs, International Accounting Standards ("IAS(s)"), amendments and new interpretations ("Int(s)") issued by the International Accounting Standards Board (the "IASB").

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2012 – 2014 Cycle |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to IFRS 11 | Accounting for Acquisition of Interests in Joint Operations |

The application of the new and revised IFRSs 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.

### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 (2014) | Financial Instruments[2] |
| IFRS 15 | Revenue from Contracts with Customers[2] |
| IFRS 16 | Leases[3] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014 – 2016 Cycle[5] |
| Amendments to IAS 7 | Disclosure Initiative[1] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[1] |
| Amendments to IAS 40 | Investment property[2] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions[2] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2] |
| IFRIC Interpretation 22 | Foreign Currency Transactions and Advance Consideration[2] |

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

2 Effective for annual periods beginning on or after 1 January 2018.

3 Effective for annual periods beginning on or after 1 January 2019.

4 Effective on a future date further to be determined.

5 The amendments to IFRS 12 is effective for the annual periods beginning on or after 1 January 2017 and the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(S)") (Continued)

### New and revised IFRSs issued but not yet effective (Continued)

The directors of the Company ("the Directors") anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

**IFRS 9 (2014) *Financial Instruments***

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 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 IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 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 IFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of IFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of IAS 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9 (2014), 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 designated as at fair value through profit or loss, IFRS 9 (2014) requires that the 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. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- 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 IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 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.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(S)") (Continued)

### New and revised IFRSs issued but not yet effective (Continued)

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

- IFRS 9 (2014) 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, IFRS 9 (2014) 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 IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 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 IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

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

The Directors anticipate that the application of IFRS 9 (2014) in the future may have significant impact on amounts reported and disclosures made in respect of the Group's financial assets and financial liabilities in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 (2014) until a detailed review has been completed.

**IFRS 15 *Revenue from Contracts with Customers***

The core principle of IFRS 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, IFRS 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.

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(S)") (Continued)

### New and revised IFRSs issued but not yet effective (Continued)

**IFRS 15 *Revenue from Contracts with Customers*** (Continued)

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

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The application of IFRS 15 may result in the identification of separate performance robligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under IFRS 15. At this stage, the Group is in the process of assessing the impact of IFRS 15 on the Group's consolidated financial statements.

**IFRS 16 *Leases***

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 "Property, Plant and Equipment", while interest accrual on lease liability will be charged to profit or loss.

IFRS 16 will become effective for annual periods beginning on or after 1 January 2019. IFRS 16 will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position. The Group is in the process of assessing to what extent the operating lease commitments as disclosed in note 27 will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. 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.

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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries).

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and cease when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries 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.

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

### Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

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

(i) *Income from provision of telecommunication solutions*
Income from provision of telecommunication solutions is recognised by reference to the stage of completion of the contract. The stage of completion is determined by making reference to testing criteria as certified by the customers.

(ii) *Income from trading of hardware and computer software*
Revenue is recognised when the goods are delivered and the 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 goods 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.

(iii) *Income from provision of telecommunication value-added services*
Income from provision of telecommunication value-added services is recognised, net of discounts, when an arrangement exists and service is rendered.

(iv) *Interest income*
Interest income from a financial asset is recognised when it is probably 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.

### 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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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 state-managed retirement benefit schemes are recognised as expenses when employees have rendered service entitling them to the contributions.

### Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

### 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 loss before tax as reported in the consolidated statement of profit or loss and other comprehensive income 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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

### Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment less their residual values over their estimated 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 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.

### Intangible assets

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

### Inventories

Inventories are stated at the lower of cost or 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and deposits with an original maturity of within three months.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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.

#### Financial assets

The Group's 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 are 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 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 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 receivables and other receivables, restricted bank balance and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment of financial assets below).

*Impairment loss on financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where 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
- 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

**Financial assets** (Continued)

*Impairment loss on financial assets (Continued)*

For certain categories of financial assets, such as trade and other 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 60 to 180 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the 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 asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or an other receivable is considered uncollectible, it is 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 assets 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.

*Financial liabilities*

The Group's financial liabilities are classified into other financial liabilities.

Other financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest rate 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.

*Equity instruments*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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.

A financial liability is derecognised 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.

### Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 a cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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 on-going 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.

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

### Impairment of plant and equipment

The Group assesses whether there are any indicators of impairment for all plant and equipment at the end of each reporting period. Plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management may significantly affect the Group's impairment evaluation and hence results. As at 31 December 2016, the carrying amount of plant and equipment is RMB773,000 (2015: RMB1,297,000), net of accumulated impairment losses of RMB251,000 (2015: RMB367,000).

### Impairment of trade receivables, prepayments and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amounts of trade receivables, prepayments and other receivables are approximately RMB57,135,000, RMB1,169,000 and RMB2,028,000 (2015: RMB1,883,000, RMB2,782,000 and RMB1,777,000) respectively, net of accumulated impairment losses of approximately RMB4,237,000, RMB403,000 and RMB6,025,000 (2015: 4,932,000, RMB403,000 and RMB6,025,000) respectively.

### Allowance for inventories

The management of the Group reviews ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving inventory items identified. The management also estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions which involve judgement in respect of the expectation about the market condition and the future demand for such items in inventory. As at 31 December 2016, the carrying amount of inventories was approximately RMB1,861,000 (2015: RMB2,191,000). No allowance was provided on inventories as at 31 December 2016 and 2015.

## 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 shareholders 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 cash and cash equivalents and equity attributable to owners of the Company, comprising paid in capital and reserves.

The Directors review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt.

## 6. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **108,551** | 110,321 |
| **Financial liabilities** | | |
| At amortised cost | **8,749** | 8,445 |

### b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, restricted bank balance, bank balances and cash, and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (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.

#### (i) Interest rate risk

The Group's exposure to cash flow interest rate risk is through the impact of rate changes on interest-bearing financial assets and liabilities. Interest bearing financial assets is mainly balances with banks which are all short-term in nature. There were no interest-bearing financial liabilities as at 31 December 2016 and 2015. The management monitors the movement in market interest rates and reviews such impact on the Group on a continuous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Group.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. The analysis is prepared assuming bank balances outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point (2015: 50 basis point) 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.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2016 would decrease/increase by approximately RMB1,852,000 (2015: approximately RMB4,000,000). This is mainly attributable to the Group's exposure to interest rates on restricted bank balance and bank balances and cash.

## 6. FINANCIAL INSTRUMENTS (Continued)

### b. Financial risk management objectives and policies (Continued)

#### (ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2016 and 2015 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group reviews the recoverable amount of each individual trade debt and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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 recoverability 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 consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical location is solely in the PRC, which accounted for 100% of trade and other receivables as at 31 December 2016 and 2015. As at 31 December 2016, the Group had concentration of credit risk as 46.3% (2015: 24.4%) and 97.3% (2015: 25.5%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

#### (iii) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Directors are satisfied that the Group will be able to meet in full its financial obligations as and when fall due in the foreseeable future. The Group's contractual maturity for all its financial liabilities, based on the agreed repayment terms and the undiscounted cash flows on the earliest date the Group can be required to pay, is within one year or on demand.

### c. Fair values of financial assets and financial liabilities

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements as at 31 December 2016 and 2015 are not materially different from their fair values due to their short maturities.

## 7. TURNOVER AND SEGMENT INFORMATION

Turnover comprises income from provision of telecommunication solutions, trading of hardware and computer software and provision of telecommunication value-added services, net of business tax and discounts during the year.

The Group's operating segments, based on information reported to the chief operating decision maker, being the executive directors, are for the purpose of resource allocation and performance assessment. The Directors have chosen to organise the Group around differences in products and services. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segment of the Group.

Specifically, the Group's reportable segments are as follows:

1. Provision of telecommunication solutions
2. Trading of hardware and computer software
3. Provision of telecommunication value-added services

### (a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

| | Provision of telecommunication solutions | | Trading of hardware and computer software | | Provision of telecommunication value-added services | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Segment turnover | **231** | 746 | **125,270** | 47,468 | **14,985** | 16,440 | **140,486** | 64,654 |
| Segment results | **145** | 137 | **747** | (417) | **(2,273)** | (3,131) | **(1,381)** | (3,411) |
| Unallocated revenue | | | | | | | **3,527** | 442 |
| Unallocated expenses | | | | | | | **(6,219)** | (7,480) |
| Loss before tax | | | | | | | **(4,073)** | (10,449) |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment profit/loss represents the profit or loss from each segment without allocation of central administration costs, directors' salaries, bank interest income, exchange gain, gain/loss on disposal of plant and equipment, write-off of other payables and certain other operating income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

## 7. TURNOVER AND SEGMENT INFORMATION (Continued)

### (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

| | Provision of telecommunication solutions | | Trading of hardware and computer software | | Provision of telecommunication value-added services | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| As at 31 December | | | | | | | | |
| Segment assets | **–** | 1 | **59,961** | 5,961 | **708** | 1,634 | **60,669** | 7,596 |
| Unallocated assets | | | | | | | **51,685** | 108,995 |
| Total assets | | | | | | | **112,354** | 116,591 |
| Segment liabilities | **3** | 21 | **2,032** | 1,997 | **73** | 462 | **2,108** | 2,480 |
| Unallocated liabilities | | | | | | | **8,435** | 8,367 |
| Total liabilities | | | | | | | **10,543** | 10,847 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than certain plant and equipment, bank balances and cash, restricted bank balance, balances with related parties and certain prepayments and other receivables which are unable to allocate into reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than certain other payables, income tax payables and balances with related parties. Liabilities for which reportable segments are jointly liable are allocated on the basis of the revenues earned by individual reportable segments.

## 7. TURNOVER AND SEGMENT INFORMATION (Continued)

### (c) Other segment information:

| | Provision of telecommunication solutions | | Trading of hardware and computer software | | Provision of telecommunication value-added services | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | | | |
| Addition to plant and equipment | **-** | – | **-** | 25 | **180** | 111 | **-** | – | **180** | 136 |
| Cost of inventories recognised as an expense | **-** | – | **122,713** | 45,950 | **-** | – | **-** | – | **122,713** | 45,950 |
| Depreciation | **-** | 18 | **12** | 8 | **433** | 443 | **244** | 226 | **689** | 695 |
| Write back of impairment loss on trade receivables | **-** | – | **(10)** | – | **-** | – | **-** | – | **(10)** | – |
| Government grants | **-** | – | **-** | – | **(275)** | (496) | **-** | – | **(275)** | (496) |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets: | | | | | | | | | | |
| Loss (gain) on disposal of plant and equipment | **-** | – | **-** | – | **-** | – | **15** | (19) | **15** | (19) |
| Interest income | **-** | – | **-** | – | **-** | – | **(292)** | (80) | **(292)** | (80) |
| Write-off of other payables | **-** | – | **-** | – | **-** | – | **(1,000)** | – | **(1,000)** | – |

### (d) Geographical information

Both revenue and non-current assets of the Group's operating segments are derived from or located in the PRC. Accordingly, no geographical information is presented.

## 7. TURNOVER AND SEGMENT INFORMATION (Continued)

### (e) Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Customer A[1] | **48,525** | – |
| Customer B[1] | **39,727** | – |
| Customer C[2] | **N/A*** | 17,833 |
| Customer D[3] | **N/A*** | 7,840 |
| Customer E[3] | **N/A*** | 7,738 |

1 New customer to the trading of hardware and computer software segment.
2 Customer to the trading of hardware and computer software segment.
3 Customer to the telecommunication value-added services segment.
* The corresponding revenue did not contributed over 10% of the total revenue of the Group.

## 8. OTHER OPERATING INCOME

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Government grants (note a) | **275** | 496 |
| Interest income | **292** | 80 |
| Gain on disposal of plant and equipment | **–** | 19 |
| Write back of impairment loss on trade receivables | **10** | – |
| Write-off of other payables (note b) | **1,000** | – |
| Exchange gain | **2,093** | 43 |
| Others | **142** | 300 |
| | **3,812** | 938 |

Note (a): Government grants represented the amount received in the current year mainly relates to rebate of other taxes and value-added tax. There are no unfulfilled conditions or contingencies relating to those grants.

Note (b): Other payables were written off upon the wound up of the creditor.

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

The details of emoluments of each of nine (2015: nine) directors, including chief executive, and five (2015: five) supervisors for the years ended 31 December 2016 and 2015 are set out below:

| For the year ended 31 December 2016 | Executive Directors | | | | | | Independent non-executive directors | | | Supervisors | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mr. Chen Ping (Chief Executive) RMB'000 | Mr. Chao Hong Bo RMB'000 | Mr. Xia Zhen Hai RMB'000 | Mr. Xie Fei RMB'000 | Mr. Wang Lin Hua RMB'000 | Mr. Wang Yong Gui RMB'000 | Mr. Cai Xiao Fu RMB'000 | Mr. Zhang De Xin RMB'000 | Mr. Gu Yu Lin RMB'000 | Mr. Xie Jian Ping RMB'000 (Note) | Mr. Wang Li Jun RMB'000 | Ms. Liu Chun Fang RMB'000 | Ms. Wang Xiao Li RMB'000 (Note) | Mr. Feng Pei Xian RMB'000 | Total RMB'000 |
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | | | | | | | | | |
| Fees | 104 | 22 | 22 | 22 | - | - | 22 | 22 | 22 | - | - | - | - | - | 236 |
| Other emoluments | | | | | | | | | | | | | | | |
| Salaries and other benefits | - | - | - | - | - | - | - | - | - | - | - | 3 | - | 3 | 6 |
| Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking | | | | | | | | | | | | | | | |
| Salaries and other benefits | - | - | - | - | 146 | 216 | - | - | - | - | 32 | - | - | - | 394 |
| Contributions to retirement benefits schemes | - | - | - | - | 42 | 13 | - | - | - | - | 5 | - | - | - | 60 |
| | 104 | 22 | 22 | 22 | 188 | 229 | 22 | 22 | 22 | - | 37 | 3 | - | 3 | 696 |

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

| For the year ended 31 December 2015 | Executive Directors | | | | | | Independent non-executive directors | | | Supervisors | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mr. Chen Ping (Chief Executive) RMB'000 | Mr. Chao Hong Bo RMB'000 | Mr. Xia Zhen Hai RMB'000 | Mr. Xie Fei RMB'000 | Mr. Wang Lin Hua RMB'000 | Mr. Wang Yong Gui RMB'000 | Mr. Cai Xiao Fu RMB'000 | Mr. Zhang De Xin RMB'000 | Mr. Gu Yu Lin RMB'000 | Mr. Xie Jian Ping RMB'000 (Note) | Mr. Wang Li Jun RMB'000 | Ms. Liu Chun Fang RMB'000 | Ms. Wang Xiao Li RMB'000 (Note) | Mr. Feng Pei Xian RMB'000 | Total RMB'000 |
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | | | | | | | | | |
| Fees | 101 | 22 | 22 | 22 | – | – | 22 | 22 | 22 | – | – | – | – | – | 233 |
| Other emoluments | | | | | | | | | | | | | | | |
| Salaries and other benefits | – | – | – | – | – | – | – | – | – | – | – | 3 | – | 3 | 6 |
| Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking | | | | | | | | | | | | | | | |
| Salaries and other benefits | – | – | – | – | 218 | 220 | – | – | – | – | 114 | – | – | – | 552 |
| Contributions to retirement benefits schemes | – | – | – | – | 50 | 14 | – | – | – | – | 17 | – | – | – | 81 |
| | 101 | 22 | 22 | 22 | 268 | 234 | 22 | 22 | 22 | – | 131 | 3 | – | 3 | 872 |

Note: During the year ended 31 December 2016, the emoluments of Mr. Xie Jian Ping and Ms. Wang Xiao Li of approximately RMB72,300 (2015: approximately RMB72,000) and RMB72,300 (2015: approximately RMB72,000) respectively were borne by 杭州賽爾通信設備有限公司, a related company in which Mr. Chen Ping, the director of the Company, has beneficial interests.

None of the directors or supervisors waived or agreed to waive any emoluments paid by the Group for the years ended 31 December 2016 and 2015.

Mr. Chen Ping is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

No emoluments were paid or payable to any directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2016 and 2015.

## 10. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals include three (2015: three) Directors, whose emoluments have been included in note 9 above. The emoluments of the remaining two (2015: two) individuals were as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Salaries and other benefits | **516** | 354 |
| Contributions to retirement benefits scheme | **50** | 21 |
| | **566** | 375 |

The emoluments of each of these individuals for both years were less than HK$1,000,000 or equivalent to approximately RMB857,087 (2015: RMB788,900).

No emoluments were paid or payable to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2016 and 2015.

## 11. INCOME TAX CREDIT

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| **Current tax** | | |
| PRC Enterprise Income Tax | **–** | – |
| Overprovision in previous years | **(140)** | – |
| | **(140)** | – |

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises is 25% for the years ended 31 December 2016 and 2015.

No provision for Enterprise Income Tax for the Group for the years ended 31 December 2016 and 2015 as there was no assessable profit derived by the Group for both years. One of the subsidiaries was subject to EIT at a rate of 15% (2015: 15%) for the year ended 31 December 2016 as it is classified as a High and New Technology Enterprise.

No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2016 and 2015.

## 11. INCOME TAX CREDIT (Continued)

The income tax credit for the years can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Loss before taxation | **(4,073)** | (10,449) |
| Tax at the domestic income tax rate of 15% (2015: 15%) (Note) | **(611)** | (1,567) |
| Tax effect of different tax rates of subsidiaries | **(321)** | (458) |
| Tax effect of expenses not deductible for tax purpose | **767** | 590 |
| Tax effect of income not taxable for tax purpose | **(252)** | (11) |
| Tax effect of tax losses not recognised | **417** | 1,446 |
| Overprovision in previous years | **(140)** | – |
| Income tax credit for the year | **(140)** | – |

Note: The PRC EIT of 15% is used as it is the domestic tax rate where the results and operation of the Group is substantially derived from during the years ended 31 December 2016 and 2015.

## 12. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Salaries and other benefits (including directors', chief executive's and supervisors' emoluments) | **4,109** | 4,815 |
| Severance payments | **210** | 1,183 |
| Contributions to retirement benefits scheme | **530** | 553 |
| Total staff costs | **4,849** | 6,551 |
| Auditors' remuneration | **489** | 426 |
| Depreciation of plant and equipment | **689** | 695 |
| Loss on disposal of plant and equipment (included in general and administrative expenses) | **15** | – |
| Operating lease rental for office premises | **1,670** | 1,853 |
| Cost of inventories recognised as an expense | **122,713** | 45,950 |

## 13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

## 14. LOSS PER SHARE

The calculations of the basic loss per share are based on loss for the year attributable to owners of the Company of approximately RMB3,530,000 (2015: RMB9,381,000) and on the weighted average number of 506,546,000 (2015: 369,286,000) shares in issue during the year ended 31 December 2016.

Diluted loss per share was the same as basic loss per share for the years ended 31 December 2016 and 2015 as there were no diluting events existed during both years.

## 15. PLANT AND EQUIPMENT

| | Leasehold improvements RMB'000 | Motor vehicles RMB'000 | Office furniture, fixtures and other equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2015 | 3,830 | 1,262 | 9,761 | 14,853 |
| Additions | – | – | 136 | 136 |
| Disposals | – | – | (7,022) | (7,022) |
| At 31 December 2015 | 3,830 | 1,262 | 2,875 | 7,967 |
| Additions | – | – | 180 | 180 |
| write-offs | – | – | (354) | (354) |
| **At 31 December 2016** | **3,830** | **1,262** | **2,701** | **7,793** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | |
| At 1 January 2015 | 3,818 | 504 | 8,586 | 12,908 |
| Provided for the year | 12 | 226 | 457 | 695 |
| Eliminated on disposals | – | – | (6,933) | (6,933) |
| At 31 December 2015 | 3,830 | 730 | 2,110 | 6,670 |
| Provided for the year | – | 226 | 463 | 689 |
| Eliminated on write-offs | – | – | (339) | (339) |
| **At 31 December 2016** | **3,830** | **956** | **2,234** | **7,020** |
| **CARRYING VALUES** | | | | |
| **At 31 December 2016** | **–** | **306** | **467** | **773** |
| At 31 December 2015 | – | 532 | 765 | 1,297 |

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, as follows:

| | |
|---|---|
| Leasehold improvements | 3-6 years |
| Motor vehicles | 5-8 years |
| Office furniture, fixtures and other equipment | 5 years |

## 16. INTANGIBLE ASSETS

| | Patents RMB'000 | Computer software RMB'000 | Self-developed software RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 250 | 11,774 | 11,360 | 23,384 |
| **AMORTISATION AND IMPAIRMENT** | | | | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 250 | 11,774 | 11,360 | 23,384 |
| **CARRYING VALUES** | | | | |
| **At 31 December 2016** | **–** | **–** | **–** | **–** |
| At 31 December 2015 | – | – | – | – |

The above intangible assets have finite useful lives. Such intangible assets are amortised on straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Patents | 5 to 10 years |
| Computer software | 3 to 10 years |
| Self-developed software | 3 years |

## 17. GOODWILL

| | RMB'000 |
|---|---|
| **COST** | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 956 |
| **IMPAIRMENT** | |
| At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 | 956 |
| **CARRYING AMOUNTS** | |
| **At 31 December 2016** | **–** |
| At 31 December 2015 | – |

The carrying amount of goodwill was fully impaired in prior years.

## 18. INVENTORIES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Computer software and hardware | **1,861** | 2,191 |

## 19. TRADE RECEIVABLES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Trade receivables | **61,372** | 6,815 |
| Less: Impairment losses | **(4,237)** | (4,932) |
| | **57,135** | 1,883 |

There were no specific credit period granted to customers except for an average credit period of 60-180 days (2015: 60-90 days) to its trade customers under trading of hardware and computer software segment. Ageing analysis of the trade receivables net of impairment losses as at the end of reporting period, presented based on the invoice date which approximate to revenue recognition date is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| 0 to 60 days | **56,755** | 1,393 |
| 61 to 90 days | **1** | 11 |
| 91 to 180 days | **31** | 26 |
| Over 180 days | **348** | 453 |
| | **57,135** | 1,883 |

The Group does not hold any collateral over its trade receivables. Based on past experience, management considers the unimpaired balances are fully recoverable as relevant customers have a good track record and are of a good credit standing.

The ageing analysis of trade receivables which are past due but not impaired based on the due date:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Less than 3 months | **1** | 11 |
| More than 3 months but less than 1 year | **366** | 26 |
| More than 1 year | **13** | 453 |
| | **380** | 490 |

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB380,000 (2015: RMB490,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss.

## 19. TRADE RECEIVABLES (Continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the impairment losses of trade receivables are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Balance at beginning of the year | **4,932** | 4,932 |
| Amounts written off during the year | **(685)** | – |
| Amounts recovered during the year | **(10)** | – |
| Balance at end of the year | **4,237** | 4,932 |

Before accepting any new customer, the Group will apply an internal credit assessment policy to assess the potential customer's credit quality and define credit limits by customer. Included in the impairment losses are individually impaired trade receivables with an aggregate balance of approximately RMB4,237,000 (2015: RMB4,932,000) which were long outstanding.

## 20. PREPAYMENTS AND OTHER RECEIVABLES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Fund advances | **6,157** | 6,678 |
| Less: Impairment losses | **(6,025)** | (6,025) |
| | **132** | 653 |
| Other receivables | **1,313** | 739 |
| Prepayments to suppliers | **1,572** | 3,185 |
| Less: Impairment losses | **(403)** | (403) |
| | **1,169** | 2,782 |
| Advances to employees | **583** | 385 |
| | **3,197** | 4,559 |

Impairment losses in respect of prepayments and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable directly.

## 20. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Movement in the impairment losses of prepayments and other receivables:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Balance at beginning and end of the year | **6,428** | 6,428 |

At 31 December 2016, included in the gross amount of fund advances is balances due from related parties (note 28(a)) and independent third parties of approximately RMB1,486,000 (2015: RMB2,007,000) and RMB4,671,000 (2015: RMB4,671,000) respectively. Accumulated impairment loss of approximately RMB6,025,000 (2015: RMB6,025,000) is provided in respect of such advances. All fund advances and advances to employees are unsecured, interest-free and repayable on demand. Included in the gross amount of advances to employees is balances due from related parties (note 28(a)) and independent third parties of approximately RMB208,000 (2015: RMB208,000) and RMB375,000 (2015: RMB177,000) respectively.

Included in the impairment losses are individually impaired prepayments and other receivables with an aggregate balance of approximately RMB6,428,000 (2015: RMB6,428,000) which were long outstanding. Management considers the unimpaired balances are fully recoverable as the recoverable amounts of the relevant debtors as at 31 December 2016 and 2015 are not less than the carrying amounts of such balances. The Group did not hold any collateral over these balances.

## 21. BANK BALANCES AND CASH AND RESTRICTED BANK BALANCE

Bank balances carried interest rate at average market rate of 0.30% to 0.35% for RMB (2015: 0.30% to 0.35%) per annum.

As at 31 December 2015, bank balance of approximately RMB2,075,000 was frozen by the Hangzhou Arbitration Commission which was released during the year ended 31 December 2016. Details of which are set out in note 26.

## 22. TRADE AND OTHER PAYABLES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Trade payables | **1,598** | 1,376 |
| Other payables and accruals (Note) | **7,151** | 7,069 |
| | **8,749** | 8,445 |

Ageing analysis of the trade payables presented based on the invoice date is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Less than one year | **1,403** | 1,060 |
| Over one year but less than two years | **18** | 108 |
| More than three years | **177** | 208 |
| | **1,598** | 1,376 |

There was no specific credit period for payment granted by suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Note: As at 31 December 2016, include in other payables and accruals are mainly accrued charges, staff costs, director's fee payable and miscellaneous payables.

## 23. PAID-IN CAPITAL

| | **Number of shares** | | Amount | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **'000** | '000 | **RMB'000** | RMB'000 |
| **Registered, issued and fully paid:** | | | | |
| Domestic shares with par value of RMB0.1 each | | | | |
| At 1 January and 31 December | **244,421** | 244,421 | **24,442** | 24,442 |
| Overseas public shares ("H shares") with par value of RMB0.1 each | | | | |
| At 1 January | **262,125** | 112,125 | **26,213** | 11,213 |
| Issue of new H shares of RMB0.1 each by way of placing (Note) | **–** | 150,000 | **–** | 15,000 |
| At 31 December | **262,125** | 262,125 | **26,213** | 26,213 |
| Total | **506,546** | 506,546 | **50,655** | 50,655 |

Note: On 1 December 2015, an aggregate of 150,000,000 new H shares were placed and issued to a total of four placees at an issue placing price of HK$0.32 (equivalent to RMB0.27) per share in accordance with the terms and conditions of the placing agreement entered into between the Company and Guotai Junan Securities (Hong Kong) Limited, an independent third party. The details were set out in the Company's circular dated 30 September 2015.

The new H shares have a nominal value of RMB0.1 each and ranked pari passu with the existing H shares in all respects.

## 24. RESERVES

### Statutory surplus reserve

In accordance with the Company Law in the PRC and the Articles of Association of the Company and its subsidiaries, the Company and its subsidiaries are required to appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve.

When the balance of the statutory surplus reserve reaches 50% of the paid-in capital/share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses, if any, or to increase capital after properly approved. However, except for offset prior years' losses, such statutory surplus reserve must be maintained at a minimum of 25% of paid-in capital/share capital after such usage.

The transfer to statutory reserve is based on the net profit under the financial statements prepared in accordance with the PRC accounting standards.

## 25. UNPROVIDED DEFERRED TAX

At 31 December 2016, the Group had unused tax losses amounted to approximately RMB32,719,000 (2015: RMB36,856,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The entire tax losses can be carried forward for five years from the respective years in which the loss arose. Other estimated tax losses may be carried forward indefinitely.

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Unused tax losses expiring in year of assessment: | | |
| 2016 | **–** | 6,394 |
| 2017 | **4,226** | 4,226 |
| 2018 | **4,180** | 4,180 |
| 2019 | **10,916** | 10,916 |
| 2020 | **11,140** | 11,140 |
| 2021 | **1,257** | – |
| | **31,719** | 36,856 |

## 26. LITIGATION

On 22 November 2013, 杭州華光計算機工程有限公司 ("Hangzhou Huaguang"), a wholly-owned subsidiary of the Company, received a hearing notice from Hangzhou Arbitration Commission (the "Commission") for the case in relation to the dispute arising from the sales and purchase contract entered into between 寧波中科國泰信息技術有限公司 ("Ningbo Zhongke") and Hangzhou Huaguang (the "Contract"), which the Commission confirmed its acceptance to administer on 17 October 2013 and held a hearing on 23 December 2013. As at 31 December 2015, bank balance of Hangzhou Huaguang amounted to RMB2,075,000 was frozen by the Commission (2016: Nil) (note 21).

According to the arbitration application filed by Ningbo Zhongke on 22 June 2013 (the "Arbitration Application"), Ningbo Zhongke alleged that Hangzhou Huaguang failed to perform the obligations under the Contract and demanded for refund of approximately RMB5,899,000 which was recognised as turnover during the year ended 31 December 2012.

In respect to the Arbitration Application, Hangzhou Huaguang had filed a counter-arbitration application to the Commission on 5 November 2013 in order to demand Ningbo Zhongke to make payments for the outstanding amount and overdue interests amounted to approximately RMB685,000. Such balance had been included in trade receivables and was fully impaired as at 31 December 2016 and 2015.

The Company decided to defend against and obtained legal advice in respect of the claim.

On 20 January 2016, the Commission handed down the final judgement that the claims were dismissed from both parties and that no compensation is required from each party. On 27 January 2016, the restricted bank balance was released upon the judgement handed by the Commission. No litigation can be lodged by the counterparty.

## 27. OPERATING LEASE COMMITMENTS

### The Group as lessee

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from two to four years (2015: two to ten years) and rentals are under fixed rate throughout the lease period.

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Within one year | **426** | 951 |
| In the second to fifth year inclusive | **–** | 1,348 |
| | **426** | 2,299 |

## 28. RELATED AND CONNECTED PARTY TRANSACTIONS

### (a) Balances with related parties

Amounts due from (to) related parties included in prepayments and other receivables as detailed in note 20 is set out below:

**As at 31 December 2016**

| Name of related party | Loan nature | Outstanding/ Aggregate outstanding amount at 01/01/2016 RMB'000 | Outstanding/ Aggregate outstanding amount at 31/12/2016 RMB'000 | Maximum amount owed to the Group during the year RMB'000 | Amount/ Aggregate amount fallen due but not been paid RMB'000 | Provisions/ Aggregate provisions for doubtful/bad debts made RMB'000 |
|---|---|---|---|---|---|---|
| 浙江元幸信息科技有限公司[6] | Quasi-loan | 653 | 132 | 753 | – | – |
| 杭州賽爾網絡技術有限公司[3] | Quasi-loan | 1,354 | 1,354 | 1,354 | – | 1,354 |
| Mr. Xie Jian Ping [7] | Quasi-loan | 200 | 200 | 200 | – | – |
| Mr.Wang Lin Hua [5] | Quasi-loan | 8 | 8 | 8 | – | – |
| | | 2,215 | 1,694 | | | |

As at 31 December 2015

| Name of related party | Loan nature | Outstanding/ Aggregate outstanding amount at 01/01/2015 RMB'000 | Outstanding/ Aggregate outstanding amount at 31/12/2015 RMB'000 | Maximum amount owed to the Group during the year RMB'000 | Amount/ Aggregate amount fallen due but not been paid RMB'000 | Provisions/ Aggregate provisions for doubtful/bad debts made RMB'000 |
|---|---|---|---|---|---|---|
| Insigma Technology Co., Ltd. ("Insigma")[1] | N/A | (5,799) | – | N/A | – | – |
| 浙江元幸信息科技有限公司[6] | Quasi-loan | 5,534 | 653 | 6,934 | – | – |
| 杭州弈翰科技有限公司[2] | Quasi-loan | 5,260 | – | 11,385 | – | – |
| 浙江浩天信息科技有限公司[3] | Quasi-loan | 4,800 | – | 4,800 | – | – |
| 杭州賽爾網絡技術有限公司[3] | Quasi-loan | 1,354 | 1,354 | 1,354 | – | 1,354 |
| Mr. Xie Jian Ping [7] | Quasi-loan | 200 | 200 | 200 | – | – |
| Mr. Wang Yong Gui [4] | Quasi-loan | 12 | – | 12 | – | – |
| Mr.Wang Lin Hua [5] | Quasi-loan | – | 8 | 8 | – | – |
| | | 17,160 | 2,215 | | | |

## 28. RELATED AND CONNECTED PARTY TRANSACTIONS (Continued)

### (a) Balances with related parties (Continued)

[1] During the year ended 31 December 2016, the Group incurred rental and related expenses of approximately RMB163,000 (2015: RMB443,000) for leasing of the office premises from Insigma, a substantial shareholder of the Company during the year. Insigma ceased to be a substantial shareholder of the Company from 20 January 2017.

[2] Mr. Luo Xiao, a former accounting manager of the Company, was the supervisor of the company. The Company ceased to become a related party in 2015.

[3] Mr. Chen Ping is the common director.

[4] Mr. Wang Yong Gui is a director of the Company.

[5] Mr. Wang Lin Hua is a director of the Company.

[6] Mr. Xie Jian Ping is the common supervisor.

[7] Mr. Xie Jian Ping is the supervisor of the Company.

The above balances are unsecured, interest-free and repayable on demand.

### (b) Compensation of key management personnel

The remuneration of directors, chief executive, supervisors and other members of key management during the year were as follows:

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short-term benefits | **1,225** | 1,246 |
| Post-employment benefits | **111** | 102 |
| | **1,336** | 1,348 |

The remuneration of directors, supervisors and key management was determined by the remuneration committee having regard to the performance of individual and market trends.

## 29. RETIREMENT BENEFIT SCHEMES

The employees of the Group are required to participate in a central pension scheme operated by the PRC local municipal governments. The companies in the Group are required to contribute a specified percentage of its payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB530,000 (2015: RMB553,000) represents contributions payable to this scheme by the Group in respect of the current accounting period.

## 30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | NOTES | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | | **14** | 19 |
| Investments in subsidiaries | (a) | **12,453** | 12,741 |
| | | **12,467** | 12,760 |
| **Current assets** | | | |
| Trade receivables | | **54,859** | – |
| Prepayments and other receivables | | **1,030** | 1,014 |
| Amounts due from subsidiaries | (b) | **–** | 3,000 |
| Bank balances and cash | | **43,965** | 97,112 |
| | | **99,854** | 101,126 |
| **Current liabilities** | | | |
| Trade and other payables | | **3,123** | 1,841 |
| Amounts due to subsidiaries | (c) | **11,377** | 11,100 |
| Current tax liabilities | | **20** | 20 |
| | | **14,520** | 12,961 |
| **Net current assets** | | **85,334** | 88,165 |
| **NET ASSETS** | | **97,801** | 100,925 |
| **Capital and reserves** | | | |
| Paid-in capital | | **50,655** | 50,655 |
| Reserves | (d) | **47,146** | 50,270 |
| **TOTAL EQUITY** | | **97,801** | 100,925 |

## 30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) Investments in subsidiaries

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **19,880** | 19,880 |
| Accumulated impairment loss | **(7,427)** | (7,139) |
| | **12,453** | 12,741 |

(b) Amounts due from subsidiaries

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Amounts due from subsidiaries | **4,836** | 4,836 |
| Accumulated impairment losses | **(4,836)** | (1,836) |
| | **–** | 3,000 |

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

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

(d) Reserves

| | Attributable to owners of the Company | | | |
|---|---|---|---|---|
| | Share premium RMB'000 | Statutory surplus reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
| At 1 January 2015 | 76,570 | 7,934 | (54,516) | 29,988 |
| Loss and total comprehensive expense for the year | – | – | (4,484) | (4,484) |
| Issue of new shares by way of placing | 25,171 | – | – | 25,171 |
| Share issue expenses | (405) | – | – | (405) |
| At 31 December 2015 | 101,336 | 7,934 | (59,000) | 50,270 |
| Loss and total comprehensive expense for the year | – | – | (3,124) | (3,124) |
| At 31 December 2016 | 101,336 | 7,934 | (62,124) | 47,146 |

## 31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

| Name | Form of business | Place of establishment/ operations | Issued share capital/Paid up issued registered share capital | Proportion of ownership interest held by Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| 浙江蘭創通信有限公司 | Private Limited | PRC | Registered capital of RMB10,000,000 | 85% | – | Provision of telecommunication related services |
| Hangzhou Huaguang | Private Limited | PRC | Registered capital of RMB10,000,000 | 100% | – | Trading of hardware and computer software |
| 杭州華光軟件有限公司 | Private Limited | PRC | Registered capital of RMB500,000 | – | 70% | Trading of hardware and computer software |

All subsidiaries are limited liability companies.

The above table lists the major 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 any debt securities subsisting at the end of the year or at any time during both years.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. All of these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarised as follows:

| Principal activities | Incorporation place | Number of subsidiaries 2016 | 2015 |
|---|---|---|---|
| Inactive | Hong Kong | **1** | 1 |
| Inactive | The PRC | **2** | 2 |

None of the subsidiaries have non-controlling interests that are material to the Group.

## 32. SUBSEQUENT EVENTS

On 20 January 2017, the Company has completed the transfer of domestic shares. Zhejiang Shenghua Holdings Company Limited and Deqing Huisheng Investment Company Limited became immediate holding company and ultimate holding company of the Company respectively after the completion. Further details were set out in the Company's announcement and circular dated 20 January 2017 and 26 January 2017.

# FINANCIAL SUMMARY

## CONSOLIDATED RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Turnover | **140,486** | 64,654 | 48,130 | 61,410 | 57,421 |
| Cost of sales | **(125,308)** | (50,432) | (29,914) | (30,155) | (27,418) |
| Gross profit | **15,178** | 14,222 | 18,216 | 31,255 | 30,003 |
| Other operating income | **3,812** | 938 | 2,156 | 1,266 | 14,044 |
| Distribution and selling expenses | **(10,675)** | (10,699) | (12,352) | (10,334) | (8,907) |
| General and administrative expenses | **(12,388)** | (14,910) | (19,855) | (22,904) | (26,535) |
| Share of results of associates | **–** | – | – | – | 1,433 |
| Loss on disposal of an associate | **–** | – | – | – | (700) |
| (Loss) profit before tax | **(4,073)** | (10,449) | (11,835) | (717) | 9,338 |
| Income tax credit (expenses) | **140** | – | – | (305) | (317) |
| (Loss) profit for the year and total comprehensive (expense) income for the year | **(3,933)** | (10,449) | (11,835) | (1,022) | 9,021 |
| Attributable to: | | | | | |
| – Owners of the Company | **(3,530)** | (9,381) | (11,237) | (758) | 8,327 |
| – Non-controlling interests | **(403)** | (1,068) | (598) | (264) | 694 |
| | **(3,933)** | (10,449) | (11,835) | (1,022) | 9,021 |
| (Loss) earnings per share | | | | | |
| – Basic and diluted (RMB cents) | **(0.70)** | (2.54) | (3.15) | (0.21) | 2.34 |

## CONSOLIDATED ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **112,354** | 116,591 | 92,615 | 109,508 | 106,078 |
| Total liabilities | **(10,543)** | (10,847) | (16,188) | (21,246) | (16,794) |
| Non-controlling interests | **(2,934)** | (3,337) | (4,405) | (5,003) | (5,267) |
| Shareholders' equity | **98,877** | 102,407 | 72,022 | 83,259 | 84,017 |