SHLD
升華蘭德

SHENGHUA LANDE SCITECH LIMITED*

浙江升華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

2017 Annual Report

* For identification purposes only

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* *For identification purposes only*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Qi Jinsong *(Chairman and Chief Executive Officer)*
Mr. Chen Ping *(Vice Chairman)*
Mr. Guan Zilong
Mr. Xu Jianfeng

Independent Non-Executive Directors

Mr. Cai Jiamei
Ms. Huang Lianxi
Mr. Shen Haiying

SUPERVISORS

Mr. Chen Jian *(Chairman)*
Mr. Yu Hui
Ms. Yao Yajuan

AUTHORISED REPRESENTATIVES

Mr. Xu Jianfeng
Mr. Fork Siu Lun Tommy

COMPLIANCE OFFICER

Mr. Chen Ping

COMPANY SECRETARY

Mr. Fork Siu Lun Tommy

AUDIT COMMITTEE

Mr. Shen Haiying *(Chairman)*
Mr. Cai Jiamei
Ms. Huang Lianxi

REMUNERATION COMMITTEE

Mr. Cai Jiamei *(Chairman)*
Mr. Qi Jinsong
Mr. Shen Haiying

NOMINATION COMMITTEE

Ms. Huang Lianxi *(Chairman)*
Mr. Qi Jinsong
Mr. Cai Jiamei

REGISTERED OFFICE

No.9 Nanhu Road
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Deqing County
Huzhou City
Zhejiang Province
The People's Republic of China (the "**PRC**")

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Zhejiang Province
The PRC

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183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

SHINEWING (HK) CPA Limited
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Causeway Bay
Hong Kong

PRINCIPAL BANKER

Bank of China
Deqing Branch
36 Yongan Street
Wukang Town
Deqing County
Huzhou City
Zhejiang Province
The PRC

STOCK CODE

8106

CHAIRMAN'S STATEMENT

I would like to present hereby on behalf of the Board the 2017 annual report of the Company and its subsidiaries (together the "**Group**").

FINANCIAL HIGHLIGHTS

I hereby announce that for the year ended 31 December 2017, the Group recorded a turnover of approximately RMB173,076,000 (2016: RMB140,486,000) with a net loss attributable to owners of the Company of approximately RMB4,392,000 (2016: RMB3,530,000).

The Board does not recommend the payment of a final dividend for the financial year ended 31 December 2017 (2016: nil).

REVIEW OF OPERATIONS AND PROSPECTS

During the year, the Group continued to engage in the businesses of the provision of telecommunication value-added services, the trading of hardware and computer software and the provision of telecommunication solutions. The Group continued to cooperate with the telecommunication operators for the provision of services such as SMS business cards, 114 Bai Shi Tong Alliance and etc. However, market competition remained keen with shrinking demand for this traditional telecommunication value-added services and the development of new product has not achieved the progress as expected, this business segment has not obtained satisfactory results performance. The trading of hardware and computer software business of the Group grasped market opportunities and was able to make solid progress. Nevertheless, such development has not significantly benefitted the overall results of the Group due to the low gross profit margin of the business segment. The telecommunication solutions business of the Group has become more difficult in securing customers' orders with the fierce competition in recent years and was unable to generate revenue in the year 2017.

During the year 2017, after the change of the substantial shareholders (the "**Shareholders**") and the control of the Company and the reshuffling of the management, the existing business performance of the Group was within expectation. With the streamlining of the Group's business operation and the acquisition of 100% equity interests of Increator Technology Co., Ltd.* (浙江創建科技有限公司) ("**Increator Technology**"), the Group with its new business structure will make use of the advantage of Increator Technology and the existing resources, apart from promoting the traditional businesses such as the telecommunication value-added services and the trading of hardware and computer software, will actively seize the opportunities of the development of domestic mobile Internet industry and smart city construction to push the business development of Citizen Card* (市民卡) service solutions, in order to seek new business, new product breakthrough in mobile Internet services and smart city construction, hoping to bring the Group out of the business predicament.

Finally, on behalf of the Board and the management, I would like to thank our business partners, customers and Shareholders for their support.

Qi Jinsong
Chairman

16 March 2018
Huzhou City, the PRC

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MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

1. Review of operating results for the year

For the year ended 31 December 2017, the Group recorded a turnover of approximately RMB173,076,000 (2016: RMB140,486,000), representing an increase of approximately RMB32,590,000, or approximately 23.20% as compared with that of the year 2016. The increase in the turnover of the Group for the year was attributable to the growth in the turnover of the trading of hardware and computer software business segment during the year as compared with last year.

The gross profit margin of the Group for the year ended 31 December 2017 was approximately 7.81% (2016: 10.80%). The Group's gross profit margin for the year 2017 decreased as compared with that of the year 2016. This was mainly due to the increased portion of the Group's total turnover generated from the trading of hardware and computer software business segment of which the gross profit margin was substantially lower than that of the other business segments of the Group and the decreased portion of the Group's total turnover generated from the provision of telecommunication value-added services business segment with relatively higher gross profit margin, in the year.

The net loss attributable to owners of the Company for the year ended 31 December 2017 was approximately RMB4,392,000 (2016: RMB3,530,000). The operating environment for the Group's provision of telecommunication value-added services business segment remained harsh for the year. Although a growth was recorded for the turnover of the trading of hardware and computer software business segment, given the relatively low gross profit margin of this business segment, its contribution to the improvement of the results of the Group was insignificant. Also, the development of the Group's new business in the mobile Internet industry was not on the track as anticipated and no revenue has been generated from this new business initiative. As a result, the Group continued to be loss-making during the year. Although the Group continued to executing its cost and expense control measures, there was increment in the loss for the year, which was mainly attributable to the relatively large exchange loss on the Hong Kong dollars bank deposits of the Group as a result of the appreciation of Renminbi in the year, whereas, in the last year, there was relatively large exchange gain on the Hong Kong dollars bank deposits of the Group as a result of the depreciation of Renminbi in that year.

2. Product and business development

During the reporting year, the Group continued to cooperate with the telecommunication operators for the provision of the traditional telecommunication value-added services such as SMS business cards, 114 Bai Shi Tong Alliance, precise marketing and etc.. This business at various locations were in operation at the sites concerned and the Group continued to exploring rooms for the improvement of the results of this business segment. At the same time, the Group's trading of hardware and computer software business segment maintained a stable source of turnover. On the other hand, the progress of the development and commercialisation of the Group's mobile Internet industrial application and services was still unsatisfactory. The investment in this area remained cautious and the Group has not yet succeeded in developing products with core competitiveness and contribution to the Group's results. However, the Group had persisted to exploring suitable business opportunities in the mobile Internet industry to integrate its advantage in capital resources and hardware distribution and improve its software development capacity with a view to ultimately strengthening the market competitiveness of the Group and enhancing the sustainable development of the Group.

3. Investment and cooperation

In order to accelerate the Group's business development in the mobile Internet industry, on 29 September 2017, the Company entered into the equity transfer agreement to acquire 100% of the equity interest in Increator Technology at the consideration of RMB25,200,000 (the "**Acquisition**"). The Acquisition was approved by the Shareholders at the extraordinary general meeting held on 29 January 2018 and completed on 5 February 2018. Details of the Acquisition were set out in the announcements dated 29 September 2017, 23 October 2017, 24 November 2017, 13 December 2017, 29 January 2018 and 12 February 2018, and the circular dated 15 December 2017 issued by the Company, respectively.

Besides the above-mentioned investment, the Group has also been actively seeking suitable project opportunities. However, there is no concrete progress up to present.

During the reporting year, the Group also maintained good cooperation relationship with the telecommunication operators and other business partners.

4. Principal uncertainties and risks

The Group is operating in the domestic information technology market in the PRC. There is uncertainty on whether the PRC economy growth will persist in the coming years. The Group's financial performance may be adversely affected if the domestic consumer market downturn occurs and the competition in the market continues to be intensified. The Group endeavours to develop and transform its business towards mobile Internet industrial application and services, aiming to diversify the risk of over reliance on one single business segment or product.

Save as disclosed herein, other uncertainties and risks are set out in notes 4 to 6 to the consolidated financial statements.

5. Employees information

The Group ensured that all employees were reasonably remunerated and maintained good relationship with its employees. As at 31 December 2017, the total number of employees of the Group was 44 (2016: 49). During the year, the staff costs of the Group amounted to approximately RMB5,152,000 (2016: RMB4,849,000).

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 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 on 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 the Group's 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 has a bright future.

The Group currently has no share option scheme, nor does it have any 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 encouraged its employees to reduce paper, electricity and energy consumption throughout all its operations.

7. Compliance

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

REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

1. Financial performance

- For the year ended 31 December 2017, the Group's turnover amounted to approximately RMB173,076,000 (2016: RMB140,486,000).

- For the year ended 31 December 2017, the Group achieved a profit margin of approximately 7.81% (2016: 10.80%).

- For the year ended 31 December 2017, the Group incurred a loss attributable to owners of the Company of approximately RMB4,392,000 (2016: RMB3,530,000).

- For the year ended 31 December 2017, the Group recorded a loss per share of approximately RMB0.87 cents (2016: RMB0.70 cents).

2. Financial positions

- The Group maintained creditable financial conditions. For the year ended 31 December 2017, the Group was mainly financed by proceeds generated from daily operations and other internal resource.

- As at 31 December 2017, the Group's bank balances and cash amounted to approximately RMB48,582,000 (2016: RMB49,388,000). The bank balances and cash to total assets and net assets ratio as at 31 December 2017 were approximately 47.37% (2016: 43.96%) and 49.96% (2016: 48.51%), respectively.

- As at 31 December 2017, the Group had no borrowings (2016: nil).

- As at 31 December 2017, the Group had a total asset value of approximately RMB102,550,000 (2016: RMB112,354,000).

- As at 31 December 2017, the Group had current liabilities of approximately RMB5,310,000 (2016: RMB10,543,000).

- As at 31 December 2017, the Group had equity attributable to owners of the Company of approximately RMB94,485,000 (2016: RMB98,877,000).

- As at 31 December 2017, the Group had non-controlling interests of approximately RMB2,755,000 (2016: RMB2,934,000).

- As at 31 December 2017, the Group had a gearing ratio (i.e. the ratio of total liabilities to total assets) of approximately 5.18% (2016: 9.38%).

- As at 31 December 2017, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 5.23% (2016: 9.45%).

- The Group operated in the PRC with most of its transactions denominated and settled in Renminbi. The Group's foreign currency was Hong Kong dollars, which represented the unused portion of the net proceeds (the "**2015 Placing Proceeds**") received by the Company from the placing (the "**2015 Placing**") of its 150,000,000 new H shares (the "**H Shares**") of the Company in the end of the year 2015. As at 31 December 2017, there was approximately RMB25,508,000 (equivalent to approximately HK$30,516,000) (2016: RMB27,284,000 (equivalent to approximately HK$30,501,000)) among the remaining unused 2015 Placing Proceeds kept in Hong Kong dollars bank account. During the year ended 31 December 2017, the Group incurred exchange loss of approximately RMB1,804,000 (2016: exchange gain of approximately RMB2,093,000) on such Hong Kong dollars bank deposits as a result of the appreciation of Renminbi in the year. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

- As at 31 December 2017, none of the Group's assets were pledged (2016: nil).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities (2016: nil).

CAPITAL STRUCTURE

There were no changes in the Company's capital structure during the year ended 31 December 2017 (2016: nil). The registered capital of the Company was 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 2017 and 2016.

CHANGE OF CONTROL OF THE COMPANY

1. Transfer of the Domestic Shares

On 2 December 2016, Zhejiang Shenghua Holdings Group Company Limited* (浙江升華控股集團有限公司) (formerly known as Zhejiang Shenghua Holdings Company Limited* (浙江升華控股有限公司)) ("**Zhejiang Shenghua**") entered into respective share transfer agreements with certain holders of the Domestic Shares to acquire an aggregate of 217,126,930 Domestic Shares, representing approximately 42.86% of the total number of issued shares (the "**Shares**") of the Company (the "**Share Transfers**"). The Share Transfers were completed on 20 January 2017. Details of the Share Transfers were set out in the joint announcements jointly issued by Zhejiang Shenghua, Rise Sea Limited (a wholly-owned subsidiary of Zhejiang Shenghua) ("**Rise Sea**") and the Company dated 7 December 2016, 28 December 2016 and 20 January 2017, respectively.

2. Unconditiional mandatory cash offer for the H Shares

Upon completion of the Share Transfers, Zhejiang Shenghua 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, representing in aggregate 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 (the "**H Share Offer**") in cash for all 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 acceptances under the H Share Offer had been received by Rise Sea. Details of the H Share Offer were set out in the joint announcements dated 7 December 2016, 28 December 2016, 20 January 2017, 25 January 2017 and 16 February 2017, and the composite document dated 26 January 2017 jointly issued by Zhejiang Shenghua, Rise Sea and the Company, respectively.

3. Controlling Shareholder

Immediately after the close of the H Share Offer, Zhejiang Shenghua and Rise Sea are 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 date of the close of the H Share Offer, and became the single controlling Shareholder.

4. Changes of the Directors

Due to the change of control of the Company, with effect from 8 May 2017:

- Mr. Qi Jinsong, Mr. Chen Ping, Mr. Guan Zilong and Mr. Xu Jianfeng have been appointed as the executive Directors.
- Mr. Wang Linhua and Mr. Wang Yong Gui have resigned as the executive Directors.
- Mr. Cai Jiamei, Ms. Huang Lianxi and Mr. Shen Haiying have been appointed as the independent non-executive Directors.
- Mr. Zhang De Xin, Mr. Cai Xiao Fu and Mr. Gu Yu Lin have resigned as the independent non-executive Directors.

Details relating to, among other things, the changes of the Directors were set out in the announcements dated 17 March 2017 and 8 May 2017, and the circular dated 21 March 2017 issued by the Company, respectively.

EVENTS AFTER THE REPORTING PERIOD

Save as (i) the approval by the Shareholders and the completion of the Acquisition (as described in the sub-sectioned headed "Review of Operations" above); and (ii) the approval by the Shareholders of the Change of Use of Proceeds (as defined and described in the sub-sectioned headed "Future Prospects" below), there were no significant events after the reporting period.

FUTURE PROSPECTS

1. Orders in hand/Status in sales contract

During the reporting year, all telecommunication value-added service businesses of the Group were still within valid contract periods with the telecommunication operators. These businesses at various locations were in operation at the sites concerned. At the same time, the Group's trading of hardware and computer software business maintained a stable source of turnover. The Group's development in the market of the industrial application of mobile Internet was still at the preliminary stage and has not developed any matured products nor generated any revenue.

2. Prospects of new business and new products

As described in the sub-section headed "Review of Operations" above, in order to accelerate the business development of the Group in the mobile Internet industry, the Group has completed the Acquisition subsequent to the year ended 31 December 2017. After the completion of the Acquisition, it is expected that the Group can benefit from the technology development capacity of Increator Technology to achieve the innovation of its mobile Internet service business; and grasp the chance to integrate its hardware distribution capacity with the software development capacity of Increator Technology to enhance the Group's overall market competitiveness, which allow the Group to gain more commercial value and business opportunities from and tap into the mobile Internet industry through its participation in the business of Increator Technology, namely the research and development, the construction and the potential operation of the Citizen Card* system.

Apart from promoting the traditional businesses such as the telecommunication value-added services and the trading of hardware and computer software, the Group will actively seize the opportunities of the development of domestic mobile Internet industry and smart city construction to push the business development of Citizen Card* service solutions, in order to seek new business, new product breakthrough in mobile Internet services and smart city construction.

3. Use of the 2015 Placing Proceeds

On 1 December 2015, the Company completed the 2015 Placing, the details of which were set out in the announcements dated 9 September 2015, 30 September 2015, 16 November 2015, 23 November 2015 and 1 December 2015, and the circular dated 30 September 2015 issued by the Company, respectively.

As the Group's new business development in the mobile Internet industrial application and services was at a slow pace, up to 31 December 2017, the Group had not invested any material amounts in the development of new business and approximately RMB13,811,000 (31 December 2016: RMB3,201,000) out of the 2015 Placing Proceeds had been utilised for general working capital.

In light of the change in the market, the Group had proposed to change the use of the 2015 Placing Proceeds and intended to use part of the 2015 Placing Proceeds to settle part of the consideration for the Acquisition as it considered that the Acquisition would enhance its development in the mobile Internet industry. The change of use of the 2015 Placing Proceeds (the "**Change of Use of Proceeds**") has been approved by the Shareholders at the extraordinary general meeting held on 29 January 2018. Details of the Change of Use of Proceeds were set out in the announcements dated 29 September 2017, 23 October 2017, 24 November 2017, 13 December 2017 and 29 January 2018, and the circular dated 15 December 2017 issued by the Company, respectively.

The original intended use of the 2015 Placing Proceeds by the Company (as stated in its circular dated 30 September 2015) and the Change of Use of Proceeds (which has been approved by the Shareholders at the extraordinary general meeting held on 29 January 2018) are summarised in the following table:

No.	Uses of net proceeds	Original allocation	Revised allocation	Utilised amount as at the date of this report	Remaining balance after revised allocation as at the date of this report
(a)	Investments in research and development in relation to telecommunication solutions and telecommunication value-added services, developing data mining technologies and online business and its application or marketing platform, creating business platforms for corporate mobile Internet, with a view to transforming towards "Internet +"	Approximately RMB5,000,000	Approximately RMB5,000,000	–	Approximately RMB5,000,000
(b)	Expansion of the Group's business network and markets in respect of its business in the provision of telecommunication solutions and telecommunication value-added services in the PRC; development of mobile Internet industry services	Approximately RMB6,000,000	–	–	–
(c)	Future investments	Approximately RMB10,000,000	Approximately RMB10,000,000	Approximately RMB10,000,000 (Note)	–
(d)	General working capital	Approximately RMB21,000,000	Approximately RMB21,000,000	Approximately RMB15,592,000	Approximately RMB5,408,000
(e)	Settlement of the consideration for the Acquisition	–	Approximately RMB6,000,000	Approximately RMB6,000,000 (Note)	–

Note:

The amount has been used to settle part of the consideration for the Acquisition after its completion in February 2018.

On behalf of the Board
Qi Jinsong
Chairman

16 March 2018
Huzhou City, the PRC

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DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, the supervisors (the "**Supervisors**") of the Company and the senior management of the Group as at 16 March 2018, the date of this annual report, are set out as follows:

DIRECTORS

Executive Directors

Mr. Qi Jinsong, aged 53, is the chairman (the "**Chairman**") and the chief executive officer (the "**Chief Executive Officer**") of the Company. Mr. Qi 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 was appointed as the general manager and the 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)) ("**Shenghua Qiang Ci Materials**") 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) ("**Shenghua Estate**"). 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)("**Shenghua Biok Biology**"), 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)("**Meidu Group**"). Mr. Qi was 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) ("**Meidu Energy**"), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600175). Mr. Qi joined the Company since February 2017 and has been appointed as an executive Director since May 2017.

Mr. Chen Ping, aged 53, is the vice chairman (the "**Vice Chairman**") and the compliance officer (the "**Compliance Officer**") of the Company. Mr. Chen is also a director of Hangzhou Trust Communication Service Company Limited*(杭州群思特通信服務有限公司), a 55% owned subsidiary of the Company, and Zheda Lande Scitech Information Limited, a wholly-owned subsidiary of the Company. Mr. Chen is an advisor to students seeking their masters' degree and an associate professor at Zhejiang University(浙江大學). Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University(浙江大學) with a bachelor's degree and a master's degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University(浙江大學), 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(浙江大學) 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 May 2017.

Mr. Guan Zilong, aged 29, is the financial controller of the Company and a director of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Guan 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's degree in management with major in financial management in June 2011. Mr. Guan is a non-practising member(非執業會員)of Zhejiang Institute of Certified Public Accountants(浙江省註冊會計師協會). 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 initial public offering works for proposed listing applicants. Mr. Guan joined the Company since June 2016 and has been appointed as an executive Director since May 2017.

Mr. Xu Jianfeng, aged 31, is the secretary of the Board and the authorised representative (the "**Authorised Representative**") of the Company. Mr. Xu is also a director of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Xu graduated from Jiangxi University of Finance and Economics(江西財經大學)majoring in tourism management and finance (second degree) in July 2009 and obtained a bachelor's degree in management and a bachelor's degree in economics. Since July 2009 till May 2017, Mr. Xu was appointed as the secretary to the president(總裁秘書)of Shenghua Group Holdings Co., Ltd.*(升華集團控股有限公司) ("**Shenghua Group Holdings**"). Mr. Xu joined the Company and has been appointed as an executive Director since May 2017.

Independent Non-Executive Directors

Mr. Cai Jiamei, aged 71, is the chairman of the remuneration committee (the "**Remuneration Committee**") of the Company. Mr. Cai graduated from the Physics Department of Fudan University (復旦大學) majoring in semiconductor in August 1970. From May 2010 to January 2015, Mr. Cai was appointed as an independent non-executive director of Hangzhou New Century Information Technology Co., Ltd.* (杭州新世紀信息技術股份有限公司) (currently known as Hangzhou Liaison Interactive Information Technology Co., Ltd.* (杭州聯絡互動信息技術股份有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 002280). From August 2011 to August 2017, Mr. Cai was appointed as an independent non-executive director of B-soft Company Limited* (創業軟件股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300451). He has been appointed as an independent non-executive director of Sunwave Telecommunication Company Limited* (三維通信股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002115), since July 2013 and Hangzhou Xianlin Sanwei Technology Company Limited* (杭州市先臨三維科技股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 830978), since January 2014. Mr. Cai was elected as the chairman of the second and third session of the council of Zhejiang Software Industry Association* (浙江省軟件行業協會) in 2008 and 2012, respectively. Mr. Cai was appointed as the dean of the College of Information Engineering* (信息工程學院 (from October 2000 to August 2004), the College of Software* (軟件學院) (from April 2002 to May 2006) and the College of Software Vocational Skills* (軟件職業技術學院) (from April 2002 to May 2006) of Zhejiang University of Technology (浙江工業大學). Mr. Cai joined the Company and has been appointed as an independent non-executive Director since May 2017.

Ms. Huang Lianxi, aged 55, is the chairman of the nomination committee (the "**Nomination Committee**") of the Company. Ms. Huang graduated from East China College of Political Science and Law (華東政法學院) (currently known as East China University of Political Science and Law (華東政法大學)) in August 1983 majoring in law. Ms. Huang furthered her legal study at Shanghai College of International Business and Economics (上海對外貿易學院) (currently known as Shanghai University of International Business and Economics (上海對外貿易大學)) in 1984 and graduated in July 1986. From 1991 to 1992, Ms. Huang attended a one-year course in United Kingdom Practical Training Scheme for Lawyers of the People's Republic of China at the University of London and obtained a certificate of completion. From September 1984 to September 2003, Ms. Huang worked at Zhejiang Economy Law Firm* (浙江省經濟律師事務所, currently known as Zhejiang Zhe Jing Law Firm* (浙江浙經律師事務所)) as a lawyer, deputy head officer (副主任) and partner successively. Ms. Huang is a partner of Zhejiang Tiance Law Firm* (浙江天冊律師事務所) and she joined the firm since September 2003. In October 2008, Ms. Huang was recognised as Outstanding Lawyer (全國優秀律師) for the years 2005 to 2007 by All China Lawyers Association* (中華全國律師協會). In February 2013, Ms. Huang was appointed as a member of the twelfth National Committee for Chinese People's Political Consultative Conference* (中國人民政治協商會議第十二屆全國委員會). In January 2018, Ms. Huang has been appointed as a member of the thirteenth National Committee for Chinese People's Political Consultative Conference (中國人民政治協商會議第十三屆全國委員會). Ms. Huang is an arbitrator of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). Ms. Huang is the vice-president of the Lawyers Association of Zhejiang* (浙江省律師協會). Ms. Huang was an independent non-executive director of Zhejiang Zhenyuan Company Limited (浙江震元股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000705), from June 2008 to August 2014. From April 2008 to April 2014, Ms. Huang was appointed as an independent non-executive director of Sunny Loan Top Company Limited (香溢融通控股集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600830). From April 2009 to April 2015, Ms. Huang was appointed as an independent non-executive director of Shenghua Biok Biology. She was an independent non-executive director of China Calxon Group Company Limited* (嘉凱城集團股份有限公司, formerly known as Hunan Yahua Holdings Group Company Limited* (湖南亞華控股集團股份有限公司)), a company listed on the Shenzhen Stock Exchange (stock code:000918), from August 2009 to March 2016. She has been an independent non-executive director of Zhejiang Kangsheng Co., Ltd. (浙江康盛股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002418), since July 2013, Zhejiang Youpon Ceiling Company Limited* (浙江友邦吊頂股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002718), since March 2016 and Zuoli Kechuang Micro-finance Company Limited (佐力科創小額貸款股份有限公司), a company listed on the main board of the Stock Exchange (stock code: 6866), since April 2014. Ms. Huang joined the Company and has been appointed as an independent non-executive Director since May 2017.

Mr. Shen Haiying, aged 46, is the chairman of the audit committee (the "**Audit Committee**") of the Company. Mr. Shen completed a two-year professional course for accounting jointly offered by The Broadcast and Television University of China*（中央廣播電視大學）(currently known as The Open University of China（國家開放大學)) and Beijing Technology and Business University（北京工商大學）in January 2005. From November 1999 to March 2007, Mr. Shen was a director of Deqing Tianqin Accountants' Firm Company Limited*（德清天勤會計師事務所有限責任公司）. From April 2007 to March 2011, Mr. Shen was the executive director and the general manager of Huzhou Tianqin Assets Appraisal Company Limited*（湖州天勤資產評估有限公司）. From June 2008 to May 2014, he was appointed as an independent non-executive director of Shenghua Biok Biology. Since April 2011 till present, Mr. Shen is the general manager, the vice-chairman of the board and the legal representative of Zuo Li Group Holdings Company Limited*（佐力控股集團有限公司）. Since October 2007 till present, Mr. Shen is a director of Zhejiang Top Medicine Co., Ltd.（浙江拓普藥業股份有限公司）, a company listed on National Equities Exchange and Quotations (stock code: 837631). Mr. Shen is a senior accountant（高級會計師）awarded by the Review Committee of Senior Accountant Qualification of Zhejiang Province*（浙江省高級會計師資格評審委員會）. He is also a certified tax agent of Zhejiang Province（浙江省註冊稅務師）. Mr. Shen joined the Company and has been appointed as an independent non-executive Director since May 2017.

SUPERVISORS

Shareholder Representative Supervisors

Mr. Chen Jian, aged 34, is the chairman of the supervisory committee (the "**Supervisory Committee**") of the Company. Mr. Chen graduated from University of Science and Technology of China（中國科學技術大學）majoring in finance and obtained a bachelor's degree in economics in July 2005. From May 2006 to July 2012, Mr. Chen was the head of the account department of Shenghua Qiang Ci Materials. Since August 2012 till December 2017, Mr. Chen was appointed as the head of the audit and supervision department of Shenghua Group Holdings. Since January 2018 till present, Mr. Chen has been appointed as the assistant to general manager and the financial controller of Zhejiang Shenghua Yun Feng New Materials Co., Ltd.*（浙江升華雲峰新材股份有限公司）. Mr. Chen joined the Company and has been appointed as a Supervisor since May 2017.

Mr. Yu Hui, aged 29, graduated from Zhejiang Gongshang University（浙江工商大學）majoring in financial management and obtained a bachelor's degree in management in June 2011. Mr. Yu is a certified public accountant of the PRC. From September 2011 to March 2013, Mr. Yu was a senior auditor of BDO China Shu Lun Pan CPAs（立信會計師事務所）. Since April 2014 till present, Mr. Yu has been appointed as the security investment specialist of the strategic investment department of Shenghua Group Holdings. Mr. Yu joined the Company and has been appointed as a Supervisor since May 2017.

Employee Representative Supervisor

Ms. Yao Yajuan, aged 36, is the manager of the general administration department of the Company. Ms. Yao graduated from Chongqing University（重慶大學）and obtained a bachelor's degree in accounting in January 2011 through an online course. In May 2005, Ms. Yao started working at Shenghua Estate and was appointed as the operating manager in February 2011. Ms. Yao joined the Company since March 2017 and has been appointed as a Supervisor since May 2017.

SENIOR MANAGEMENT

Mr. Qi Jinsong, aged 53, is the Chairman and the Chief Executive Officer. Mr. Qi 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 was appointed as general manager and president of the board of Shenghua Qiang Ci Materials 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. From April 2013 to July 2013, he was appointed as the deputy general manager of Shenghua Biok Biology. From July 2013 to June 2014, he was the deputy general manager of Meidu Group. Mr. Qi was appointed as the executive vice president (from June 2014 to July 2016) and the director (from May 2015 to July 2016) of Meidu Energy. Mr. Qi joined the Company since February 2017.

Mr. Guan Zilong, aged 29, is the financial controller of the Company. Mr. Guan 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 is a non-practising member（非執業會員）of Zhejiang Institute of Certified Public Accountants（浙江省註冊會計師協會）. 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 initial public offering works for proposed listing applicants. Mr. Guan joined the Company since June 2016.

Mr. Xu Jianfeng, aged 31, is the secretary of the Board and the Authorised Representative. Mr. Xu graduated from Jiangxi University of Finance and Economics（江西財經大學）majoring in tourism management and finance (second degree) in July 2009 and obtained a bachelor's degree in management and a bachelor's degree in economics. Since July 2009 till May 2017, Mr. Xu was appointed as the secretary to the president（總裁秘書）of Shenghua Group Holdings. Mr. Xu joined the Company since May 2017.

Mr. Zhang Xuguang, aged 60, is the chairman of the board of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Zhang graduated from Zhejiang University（浙江大學）majoring in information and electronic engineering. Mr. Zhang had been the chairman of the board and the general manager of Hangzhou New Century Technology Development Co., Ltd.*（杭州新世紀科技發展有限公司）the president of Zhejiang Insigma Software Industry Group Co., Ltd.* (浙江浙大網新軟件產業集團有限公司) and the general manager of Zhejiang Insigma Increator Technology Co., Ltd.*（浙江網新創建科技有限公司）. Mr. Zhang had also been employed as an informatisation expect advisor to many city governments such as Hangzhou, Tieling and Jiangyin. Mr. Zhang has over twenty years of research and development and operation management experience in the field of information technology and was named as the Zhejiang Province Software Industry Outstanding Entrepreneurs and the Zhejiang Province Top Ten "Twelve-Five" New Urbanisation Figure. Various researches and engineering projects held by Mr. Zhang had won, the Technological Advancement First Grade Award of Zhejiang Province, the National Golden Card Engineering Innovation Award, Best Software Platform Award and the Best Software Development Award, the Excellence Award of Software Products and Solutions of China Software Association, the Technological Advancement Award of General Logistics Department of the People's Liberation Army and etc. The Hangzhou Citizen Card* engineering project designed by Mr. Zhang obtained the Best Application Results Award of National Golden Card Project. Mr. Zhang joined the Group since February 2018.

Mr. Wu Benlin, aged 43, is the president of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Wu graduated from He Fei University of Technology（合肥工業大學）with a bachelor's degree in communication engineering. Mr. Wu has devoted to the development of computer software application system, especially the development of its application in areas such as social security, city card, smart city based on J2EE structure, and has extensive experience in the field of city informatisation and smart city. Mr. Wu was awarded with the Technological Advancement Award of Zhejiang Province in 2008, and qualification certification of Information System Project Management Professional, OCP, Microsoft "Senior Project Management Training" and "Senior Software Development Superior Training Program" and honoured with the qualification such as IBM Certified Structuralist. Mr. Wu joined the Group since February 2018.

Mr. Luo An, aged 54, is the vice president of the Company. Mr. Luo is an engineer and the general manager of Hangzhou Huaguang Computer Engineering Co., Ltd.*（杭州華光計算機工程有限公司）, a wholly-owned subsidiary of the Company. Mr. Luo is a graduate of master in software computing and theoretical science of Zhejiang University（浙江大學）. Mr. Luo had worked at management positions in Zhejiang Tian Chang Group High-tech Development Company*（浙江天昌集團高科技開發公司）and Huzhou Jun Pu Computer Company*（湖州軍普電腦公司）, respectively. Mr. Luo has over twenty years of management experience in the field of information technology. Mr. Luo joined the Company since September 2009.

Mr. Gao Zhan, aged 47, is the vice president of the Company and general manager of Zhejiang Lan Chuang Communication Co., Ltd.*（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 Hanzhou Institute of Electronic（杭州電子工業學院）with a bachelor's 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.

Mr. Fork Siu Lun Tommy, aged 55, is the company secretary (the "**Company Secretary**") of the Company and the Authorised Representative. Mr. Fork graduated from University of Hong Kong with a bachelor's degree in science in November 1984. He has been a member of the Hong Kong Institute of Certified Public Accountants since September 1987 and a fellow member of The Association of Chartered Certified Accountants since October 1992. Mr. Fork joined the Company since May 2017.

* *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 for the best interest of all Shareholders. The Group is fully committed to doing so. Throughout the year ended 31 December 2017, the Company had 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. The Board will continue to review regularly and take appropriate actions to comply with the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Following the resignation of Mr. Chen Ping as the Chairman and the appointment of Mr. Qi Jinsong as the new Chairman, both with effect from 8 May 2017, Mr. Qi Jinsong was both the Chairman and the Chief Executive Officer who was responsible for managing the Board and the Group's business. The Board considers that, with the current Board structure and scope of business of the Group, vesting the roles of the Chairman and the Chief Executive Officer in the same person enables more effective and efficient planning and implementation of business plans and the Board believes that the balance of power and rights is adequately ensured. However, the Board will continue to review regularly the effectiveness of the Group's corporate governance structure to assess whether the separation of the positions of the Chairman and the Chief Executive Officer is necessary.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company had 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 2017. 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 2017.

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. Qi Jinsong *(appointed with effect from 8 May 2017)*
Mr. Chen Ping *(resigned and re-appointed with effect from 8 May 2017)*
Mr. Guan Zilong *(appointed with effect from 8 May 2017)*
Mr. Xu Jianfeng *(appointed with effect from 8 May 2017)*
Mr. Wang Linhua *(resigned with effect from 8 May 2017)*
Mr. Wang Yong Gui *(resigned with effect from 8 May 2017)*
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. Cai Jiamei *(appointed with effect from 8 May 2017)*
Ms. Huang Lianxi *(appointed with effect from 8 May 2017)*
Mr. Shen Haiying *(appointed with effect from 8 May 2017)*
Mr. Zhang De Xin *(resigned with effect from 8 May 2017)*
Mr. Cai Xiao Fu *(resigned with effect from 8 May 2017)*
Mr. Gu Yu Lin *(resigned with effect from 8 May 2017)*

The biographical details of the Directors are set out on pages 10 to 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 Group.

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 is published on the GEM website.

Each Director had ensured that he/she could give sufficient time, commitments and attention to the affairs of the Group 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 to assist the Directors to record the training they have undertaken. During the year, all Directors had participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Group'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, the Board committees and the Shareholders held during the year:

	Meeting attended				
Director	**Board**	**Audit committee**	**Remuneration committee**	**Nomination committee**	**Shareholders**
Executive Directors					
Mr. Qi Jinsong (Note 1)	6/6	–	1/1	1/1	0/0
Mr. Chen Ping (Note 2)	9/9	–	0/0	1/1	1/1
Mr. Guan Zilong (Note 1)	6/6	–	–	–	0/0
Mr. Xu Jianfeng (Note 1)	6/6	–	–	–	0/0
Mr. Wang Linhua (Note 3)	3/3	–	–	–	0/1
Mr. Wang Yong Gui (Note 3)	3/3	–	–	–	1/1
Mr. Chao Hong Bo (Note 4)	1/1	–	–	–	0/0
Mr. Xia Zhen Hai (Note 4)	1/1	–	–	–	0/0
Mr. Xie Fei (Note 4)	1/1	–	–	–	0/0
Independent Non-Executive Directors					
Mr. Cai Jiamei (Note 1)	6/6	3/3	1/1	1/1	0/0
Ms. Huang Lianxi (Note 1)	5/6	3/3	–	1/1	0/0
Mr. Shen Haiying (Note 1)	6/6	3/3	1/1	–	0/0
Mr. Zhang De Xin (Note 3)	3/3	1/1	–	1/1	0/1
Mr. Cai Xiao Fu (Note 3)	2/3	1/1	0/0	–	0/1
Mr. Gu Yu Lin (Note 3)	3/3	1/1	0/0	1/1	0/1

Notes:

(1) Appointed with effect from 8 May 2017.

(2) Resigned and re-appointed with effect from 8 May 2017.

(3) Resigned with effect from 8 May 2017.

(4) Resigned with effect from 17 February 2017.

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.

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. According to the stipulations of its articles of association (the "**Articles of Association**"), the Company cannot terminate the office of a Director without course.

The resignation and termination of a Director should need reasonable explanation. 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 in 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 the Audit Committee with written terms of reference in compliance with the requirements as set out in the CG Code. The Audit Committee is currently composed of three independent non-executive Directors, namely, Mr. Shen Haiying, Mr. Cai Jiamei and Ms. Huang Lianxi; and is chaired by Mr. Shen Haiying.

  The primary duties of the Audit 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 Audit Committee is also responsible for reviewing and supervising the financial reporting process and risk management and internal control systems of the Group. In the course of doing so, the Audit Committee has met the Company's management several times and the external auditor once during the year ended 31 December 2017. The Audit Committee has reviewed, among other things, the audited financial results and annual report of the Group for the year ended 31 December 2017.

- **Remuneration Committee**

  The Company has the Remuneration Committee with written terms of reference in alignment with the provisions as set out in the CG Code. The Remuneration Committee currently comprises two independent non-executive Directors, namely, Mr. Cai Jiamei and Mr. Shen Haiying, and one executive Director, Mr. Qi Jinsong, the Chairman and the Chief Executive Officer; and is chaired by Mr. Cai Jiamei.

  The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policies of the Directors and the senior management and to make recommendations to the Board for the remuneration of the Directors and the senior management. During the year, the Remuneration Committee discussed with the Chief Executive Officer on its proposals relating to the remuneration of the Directors and the senior management and has ensured that no Director is involved in deciding his/her own remuneration.

- **Nomination Committee**

  The Company has the Nomination Committee with written terms of reference in alignment with the provisions as set out in the CG Code. The Nomination Committee currently comprises two independent non-executive Directors, namely, Ms. Huang Lianxi and Mr. Cai Jiamei, and one executive Director, Mr. Qi Jinsong, the Chairman and the Chief Executive Officer; and is chaired by Ms. Huang Lianxi.

  The responsibilities of the Nomination 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 directorships; assessing the independence of independent non-executive directors; making recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the Chairman and the Chief Executive Officer; and determining the policy for nomination of the Directors. During the year, the Nomination 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 the 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 the 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 CONTROL

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 include 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 ensure 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 consists 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 the Supervisors and part of the senior executives seated in the meeting. The Board's annual review for the year ended 31 December 2017 as aforementioned had satisfactorily covered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions. 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 established an internal audit department during the year to carry out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems.

FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of consolidated financial statements 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 29 to 32 of this annual report.

AUDITOR'S REMUNERATION

During the year, the Group incurred approximately RMB511,000 (2016: RMB489,000) for remunerations in respect of audit services provided by the Company's auditor.

COMPANY SECRETARY

Ms. Chan Ching Yi resigned as the Company Secretary and Mr. Fork Siu Lun Tommy has been appointed as the new Company Secretary, both with effect from 8 May 2017. Mr. Fork is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He reports to the Board and assists the Board in functioning effectively and efficiently. During the year, Mr. Fork undertook not less than fifteen hours of professional training to update his skill and knowledge.

CHANGE IN THE ARTICLES OF ASSOCIATION

Pursuant to the special resolution passed by the Shareholders at the annual general meeting held on 8 May 2017, the Articles of Association was amended to reflect, among other things, the change of name, the change of registered address and the actual conditions of the Company. Details of the amendments in the Articles of Association were set out in the circular of the Company dated 21 March 2017.

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 10% 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

Shareholders may send their enquiries and concerns to the Board by post to (i) the principal place of business of the Company in the PRC at 17/F., Deqing Shanghui Building, No. 70 Wulipai Road, Deqing County, Huzhou City, Zhejiang Province, the PRC for the attention of the secretary of the Board (for the holders of Domestic Shares); or (ii) the principal place of business of the Company in Hong Kong at Room 1505, 15/F., Fullerton Centre, 19 Hung To Road, Kwun Tong, Kowloon, Hong Kong for the attention of the Company Secretary (for the holders of H Shares). In addition, the Company's website provides fax number and telephone 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 (i) the principal place of business of the Company in the PRC for the attention of the secretary of the Board (for the holders of Domestic Shares); or (ii) the principal place of business of the Company in Hong Kong for the attention of the Company Secretary (for the holders of H Shares), at the addresses set out in the paragraph above.

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
Qi Jinsong
Chairman

16 March 2018
Huzhou City, the PRC

ENVIRONMENTAL, SOCIAL AND GOVERANCE REPORT

The Board is pleased to present the environmental and social responsibilities report of the Group for the year ended 31 December 2017, which covers the Company and its principal subsidiaries as set out in note 30 to the consolidated financial statements. The information on the governance aspect of the Group is set out in the section headed "Corporate Governance Report" on pages 14 to 19 of this annual report.

For the year ended 31 December 2017, the Group has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 20 to the GEM Listing Rules and the relevant information is set out below.

ENVIRONMENTAL

1. Emissions

The Group is principally engaged in the provision of telecommunication solutions, the trading of hardware and computer software, the 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 its operations.

The actual numerical results for the Group's paper and energy consumption for the year under review are set out below:

Paper consumption: approximately 157,000 pieces
Energy consumption: approximately 166,000 kWh

3. The environment and national resources

The Group is committed to environmental responsibility through minimising 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 nature resource emissions, the Group executed practices that minimise 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 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 the 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 9 of this annual report.

(ii) Working conditions, health and safety

The Group also worked its best to cultivate a harmonious workplace which enhances employee performance and company-employee relationship. In addition, the Group strived to provide a safe and healthy work environment. During the year under review, no serious work-related injuries on staffs were resulted from the Group's operation.

(iii) Development and training

Training is provided to the 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 9 of this annual report.

(iv) Labour standards

During the year under review, the Group complied with labour laws and other related government regulations in the PRC. The Group had not employed staff who were below eighteen years of age. No employee had been paid less than the minimum wage or had 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 28 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 play 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, the trading of hardware and computer software, the 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, the Group had not been involved in any significant claims or litigations relating to its business, operation 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 were reported relating to the business and operation of the Group.

(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 provided opportunities for the Group and its employees to contribute in improving local communities.

On behalf of the Board
Qi Jinsong
Chairman

16 March 2018
Huzhou City, the PRC

REPORT OF THE DIRECTORS

The Board is pleased to present its report for the year ended 31 December 2017.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the Shareholders at the annual general meeting held on 8 May 2017, the Chinese name of the Company has been changed from "浙江浙大網新蘭德科技股份有限公司" to "浙江升華蘭德科技股份有限公司" and the English name of the Company has been changed from "Zheda Lande Scitech Limited" to "Shenghua Lande Scitech Limited" with effect on 5 June 2017.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of telecommunication solutions, the trading of hardware and computer software, the provision of telecommunication value-added services and investment holding. The businesses of the Company's principal subsidiaries are set out in note 30 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 8 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 has been set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on page 3 and pages 4 to 9 of this annual report, respectively.

RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2017 and its state of affairs as at that date are set out in the consolidated financial statements on pages 33 to 71 of this annual report.

The Board does not recommend the payment of a final dividend and other appropriations for the year (2016: nil).

RESERVES AVAILABLE FOR DISTRIBUTION

As at 31 December 2017, the Group did not have reserves available for distribution to owners of the Company (2016: 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 neither have bank loans nor capitalise any interest during the year (2016: nil).

SHARE CAPITAL

Details of the Company's share capital at the end of the reporting year 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 35 of this annual report.

RETIREMENT PLAN

Details of the retirement benefit schemes of the Group are set out in note 28 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 76.16% (2016: 76.97%) of the Group's turnover and the largest customer of the Group accounted for approximately 54.22% (2016: 34.54%) of the Group's turnover for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 86.60% (2016: 87.25%) of the Group's direct purchases and the largest supplier of the Group accounted for approximately 58.81% (2016: 40.17%) of the Group's direct purchases for the year.

For the year ended 31 December 2017, 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) ("**Shanghai Xiao Tong**"), Guangzhou Xiao Tong Networking Technology CO. LTD* (廣州市曉通網絡科技有限公司) ("**Guangzhou Xiao Tong**") and Beijing Xiao Tong Hong Zhi Technology Co., Ltd.* (北京曉通宏志有限公司) ("**Beijing Hong Zhi**"). For the year ended 31 December 2016, to the knowledge of the Directors, included in the Group's five largest customers were Shanghai Xiao Tong and Guangzhou Xiao Tong. Shanghai Xiao Tong, Guangzhou Xiao Tong and Beijing Hong Zhi were 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 Co., Ltd.* (浙大網新科技股份有限公司), the substantial Shareholder during the year ended 31 December 2016 and up to 20 January 2017 (the completion date of the Share Transfer), 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 each of the two years ended 31 December 2017.

FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2017 and the Group's assets and liabilities as at 31 December 2013, 2014, 2015, 2016 and 2017 is set out on page 72 of this annual report.

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Qi Jinsong *(appointed with effect from 8 May 2017)*
Mr. Chen Ping *(resigned and re-appointed with effect from 8 May 2017)*
Mr. Guan Zilong *(appointed with effect from 8 May 2017)*
Mr. Xu Jianfeng *(appointed with effect from 8 May 2017)*
Mr. Wang Linhua *(resigned with effect from 8 May 2017)*
Mr. Wang Yong Gui *(resigned with effect from 8 May 2017)*
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. Cai Jiamei *(appointed with effect from 8 May 2017)*
Ms. Huang Lianxi *(appointed with effect from 8 May 2017)*
Mr. Shen Haiying *(appointed with effect from 8 May 2017)*
Mr. Zhang De Xin *(resigned with effect from 8 May 2017)*
Mr. Cai Xiao Fu *(resigned with effect from 8 May 2017)*
Mr. Gu Yu Lin *(resigned with effect from 8 May 2017)*

Supervisors

Mr. Chen Jian *(appointed with effect from 8 May 2017)*
Mr. Yu Hui *(appointed with effect from 8 May 2017)*
Ms. Yao Yajuan *(appointed with effect from 8 May 2017)*
Mr. Xie Jian Ping *(resigned with effect from 8 May 2017)*
Mr. Wang Li Jun *(resigned with effect from 8 May 2017)*
Ms. Liu Chun Fang *(resigned with effect from 17 February 2017)*

Independent Supervisors

Mr. Feng Pei Xian *(resigned with effect from 8 May 2017)*
Ms. Wang Xiao Li *(resigned with effect from 8 May 2017)*

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to the GEM Listing Rules and the Company considers all 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 7 May 2020. All appointments are subject to termination in certain circumstances as stipulated in the relevant service agreement.

Saved as disclosed above, none of the Directors or the 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 THE DIRECTORS, THE SUPERVISORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors, the Supervisors and the senior management are set out on pages 10 to 13 of this annual report.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

The Group has adopted an emolument policy as set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 9 of this annual report. The Directors', the Supervisors' and the senior management's emoluments are determined by the Board with reference to their duties, responsibilities, performance and recommendations by the Remuneration Committee.

Details of the Directors' and the 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 THE SECURITIES

Save as disclosed below, as at 31 December 2017, none of the Directors, the 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 the 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 Vice Chairman			
Mr. Chen Ping	Beneficial owner	27,294,240 Domestic Shares	5.39%

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 (2016: nil).

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

During the year ended 31 December 2017, none of the Directors, the Supervisors or the Company's chief executives was granted options to subscribe for the Shares (2016: nil). As at 31 December 2017, none of the Directors, the Supervisors or the Company's chief executives or any of their spouses and children under eighteen 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 (2016: nil).

COMPETING INTERESTS

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

INTEREST DISCLOSEABLE UNDER THE SFO AND THE 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 2017, 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
Substantial Shareholders			
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%
Ms. Qian Xiaomei	Interest of spouse	217,126,930 Domestic Shares and 49,000,000 H shares (Note 3)	52.54%

Name	Capacity and nature of interest	Number of Shares held	Percentage of beneficial interests in the Company's share capital
Other persons			
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 4)	9.28%
Ms. Ko Chiu Yu	Beneficial owner	36,500,000 H Shares	7.21%
Mr. 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) 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 the 217,126,930 Domestic Shares held by Zhejiang Shenghua.

(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 Shenghua 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 Shenghua, 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) 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 27 to the consolidated financial statements, the Group had no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules during each of the two years ended 31 December 2017.

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**") 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 and Mr. Chen Ping has been appointed as the new Compliance Officer, both with effect from 17 February 2017. Ms. Chan Ching Yi resigned as the Company Secretary and Mr. Fork Siu Lun Tommy has been appointed as the new Company Secretary, both with effect from 8 May 2017. Mr. Fork is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member 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 annual report.

PURCHASE, SALE OR REDEMPTION OF THE 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 2017 (2016: nil).

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Company established the 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 and internal control system of the Group. The current Audit Committee comprises three independent non-executive Directors, Mr. Shen Haiying, Mr. Cai Jiamei and Ms. Huang Lianxi, whereas Mr. Shen Haiying is the chairman. During the year, the Audit Committee reviewed the first quarterly report, the half-year report, the third quarterly report of the Group for the year 2017 and the annual report of the Group for the year 2016. The Audit Committee also has reviewed the annual report of the Group for the year 2017.

AUDITOR

During the year, SHINEWING (HK) CPA Limited was re-appointed as the auditor of the Company. The consolidated financial statements of the Group for each of the three years ended 31 December 2017 were audited by SHINEWING (HK) CPA Limited.

On behalf of the Board
Qi Jinsong
Chairman

16 March 2018
Huzhou City, the PRC

* *For identification purposes only*

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is pleased to present its report for the year ended 31 December 2017.

SUPERVISORY COMMITTEE OPERATION REVIEW

With effect from 8 May 2017, Mr. Chen Jian, Mr. Yu Hui and Ms. Yao Yajuan have been appointed as the Supervisors. With effect from 8 May 2017, Mr. Xie Jian Ping and Mr. Wang Li Jun have resigned as the Supervisors, and Mr. Feng Pei Xian and Ms. Wang Xiao Li have resigned as the independent Supervisors. With effect from 17 February 2017, Ms. Liu Chun Fang has resigned as the Supervisor.

In the year, five 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 the convocation and the 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 meetings of the Board corresponded with the PRC laws and the Articles of Association. The resolutions passed by the meetings of the Shareholders have been executed effectively. The Supervisory Committee has obtained the respect and its suggestions have been accepted.

FINANCIAL POSITION OF THE GROUP

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 Company 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 had compiled with the PRC statutory regulations correlated with accounting matters.

ETHICS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

In the year, the Supervisory Committee executed its obligations and supervised on the ethics of the Directors and the senior management, in order to raise the Directors' and the 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 and regulations and the Articles of Association when executing their duties. The Directors and the senior management had performed their duties and there was no occurrence of impairment to the interest of the Shareholders either.

On behalf of the Supervisory Committee
Chen Jian
Chairman of the Supervisory Committee

16 March 2018
Huzhou 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 SHENGHUA LANDE SCITECH LIMITED
浙江升華蘭德科技股份有限公司
(formerly known as 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 Shenghua Lande Scitech Limited (formerly known as Zheda Lande Scitech Limited) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 33 to 71, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRSs") issued by the International Accounting Standards Board (the "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 Auditor's 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 judgment, 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 45 to 46.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the Group had trade receivables of approximately RMB43,370,000, representing 43% of the Group's total current assets. 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 judgment as the Group needs to assess the financial health of each trade debtor 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. We have challenged the assumptions and critical judgment 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 HKSAs 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 judgment 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, 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
16 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** **RMB'000**	2016 RMB'000
Turnover	7	**173,076**	140,486
Cost of sales		**(159,556)**	(125,308)
Gross profit		**13,520**	15,178
Other operating income		**4,494**	3,812
Distribution and selling expenses		**(7,180)**	(10,675)
General and administrative expenses		**(17,020)**	(12,388)
Loss before tax		**(6,186)**	(4,073)
Income tax credit	11	**1,615**	140
Loss and total comprehensive expense for the year	12	**(4,571)**	(3,933)
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		**(4,392)**	(3,530)
Non-controlling interests		**(179)**	(403)
		(4,571)	(3,933)
Loss per share			
Basic and diluted (RMB)	14	**(0.87) cents**	(0.70) cents

CONSOLIDATED STATMENT OF FINANCIAL POSITION

As at 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Plant and equipment	15	**1,094**	773
Intangible assets	16	**–**	–
Goodwill	17	**–**	–
		1,094	773
Current assets			
Inventories	18	**3,143**	1,861
Trade receivables	19	**43,370**	57,135
Prepayments and other receivables	20	**6,361**	3,197
Bank balances and cash	21	**48,582**	49,388
		101,456	111,581
Current liabilities			
Trade and other payables	22	**4,753**	8,749
Receipt in advance from customers		**557**	179
Income tax payables		**–**	1,615
		5,310	10,543
Net current assets		**96,146**	101,038
Net assets		**97,240**	101,811
Capital and reserves			
Paid-in capital	23	**50,655**	50,655
Reserves	24	**43,830**	48,222
Equity attributable to owners of the Company		**94,485**	98,877
Non-controlling interests		**2,755**	2,934
Total equity		**97,240**	101,811

The consolidated financial statements on pages 33 to 71 were approved and authorised for issue by the Board of Directors on 16 March 2018 and are signed on its behalf by:

Mr. Qi Jinsong
Director

Mr. Guan Zilong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 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 and at 1 January 2017	50,655	101,336	10,567	(63,681)	98,877	2,934	101,811
Loss and total comprehensive expense for the year	–	–	–	(4,392)	(4,392)	(179)	(4,571)
At 31 December 2017	50,655	101,336	10,567	(68,073)	94,485	2,755	97,240

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES		
Loss before tax	**(6,186)**	(4,073)
Adjustments for:		
Write back of impairment loss on trade receivables	**–**	(10)
Written off of other payables	**(3,971)**	(1,000)
Interest income	**(203)**	(292)
Depreciation of plant and equipment	**568**	689
Written off of plant and equipment	**54**	–
Loss on disposal of plant and equipment	**16**	15
Impairment loss/written off on other receivables	**715**	–
Impairment loss on inventories	**6**	–
Impairment loss on trade receivables	**432**	–
Operating cash flows before movements in working capital	**(8,569)**	(4,671)
(Increase) decrease in inventories	**(1,288)**	330
Decrease (increase) in trade receivables	**13,333**	(55,242)
(Increase) decrease in prepayments and other receivables	**(3,879)**	841
(Decrease) increase in trade and other payables	**(25)**	1,304
Increase (decrease) in receipt in advance from customers	**378**	(608)
Decrease in restricted bank balance	**–**	2,075
Cash used in operations	**(50)**	(55,971)
Tax refund	**–**	140
NET CASH USED IN OPERATING ACTIVITIES	**(50)**	(55,831)
INVESTING ACTIVITIES		
Repayment from related parties (included in other receivables)	**–**	521
Interest received	**203**	292
Proceeds from disposal of plant and equipment	**1**	–
Purchase of plant and equipment	**(960)**	(180)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(756)**	633
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(806)**	(55,198)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**49,388**	104,586
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash (note 21)	**48,582**	49,388

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 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.

Pursuant to a special resolution passed at the annual general meeting held on 8 May 2017, the English name of the Company was changed from "Zheda Lande Scitech Limited" to "Shenghua Lande Scitech Limited" and the Chinese name of the Company was changed from "浙江浙大網新蘭德科技股份有限公司" to "浙江升華蘭德科技股份有限公司". The new business license bearing the new Chinese name of the Company was issued by Zhejiang Provincial Administration for Industry and Commerce on 5 June 2017. The "Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company" was issued by the Registrar of Companies in Hong Kong on 14 June 2017.

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 30.

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 2014 – 2016 Cycle: Amendments to IFRS 12
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle[2]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments[2]

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

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

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

[2] Effective for annual periods beginning on or after 1 January 2019.

[3] Effective for annual periods beginning on or after 1 January 2021.

[4] Effective date not yet been determined.

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 IFRS 9 (2014) 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 has performed a preliminary analysis of the Group's financial instruments as at 31 December 2017 based on the fact and circumstances existing at that date. The Directors have assessed the impact of adoption of IFRS 9 (2014) on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures, as follows:

(a) Classification and measurement
The Directors expect to continue recognising initially at fair value for all financial assets which are subsequently measured at amortised costs. The Directors anticipate that the adoption of IFRS 9 (2014) will not have a material impact on the classification and measurement of the financial assets.

(b) Impairment
The Directors expect to apply the simplified approach and record lifetime expected credit losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade receivables. The application of the expected credit loss model may result in earlier recognition of credit losses for trade and other receivables and increase the amount of impairment allowance recognised for these items.

The Directors will perform a more detailed analysis which considers all reasonable and supportable information for the estimation of the effect of adoption of IFRS 9 (2014). Based on the preliminary assessment, the Directors expect that the adoption of IFRS 9 (2014) will not have other material impact on amounts reported in the Group's consolidated financial statements.

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;

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)

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.

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 major sources of revenue of the Group are sales of goods, provision of services and rental income. Under IFRS 15, revenue is recognised for each of the performance obligations when control over a good or service is transferred to a customer. The Directors have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18 *Revenue*. Furthermore, IFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition, and results in more disclosures in the consolidated financial statements. However, the Directors expect that the adoption of IFRS 15 will not have a material impact on the timing and amounts of revenue recognised based on the existing business model of the Group as at 31 December 2017.

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.

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

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

IFRS 16 *Leases* (Continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 *Leases* and the related Interpretations when it becomes effective.

IFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments as disclosed in note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The Directors are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under IFRS 16. The Directors expect that the adoption of IFRS 16 will not have material impact on the Group's results but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(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.

(v) Rental income

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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 lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and other receivables, 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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.

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 judgments, 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 2017, the carrying amount of plant and equipment is RMB1,094,000 (2016: RMB773,000), net of accumulated impairment losses of RMB222,000 (2016: RMB251,000).

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 2017, the carrying amounts of trade receivables, prepayments and other receivables are approximately RMB43,370,000, RMB5,388,000 and RMB973,000 (2016: RMB57,135,000, RMB1,571,000 and RMB1,626,000) respectively, net of accumulated impairment losses of approximately RMB978,000, RMB120,000 and nil (2016: RMB4,237,000, 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 judgment in respect of the expectation about the market condition and the future demand for such items in inventory. As at 31 December 2017, the carrying amount of inventories was approximately RMB3,143,000 (2016: RMB1,861,000), net of allowance of RMB6,000 (2016: nil).

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

	2017 **RMB'000**	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**92,925**	108,149
Financial liabilities		
At amortised cost	**4,753**	8,749

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, 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 2017 and 2016. 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 (2016: 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 2017 would decrease/increase by approximately RMB2,429,000 (2016: approximately RMB1,852,000). This is mainly attributable to the Group's exposure to interest rates on 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 2017 and 2016 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 2017 and 2016. As at 31 December 2017, the Group had concentration of credit risk as 92.9% (2016: 46.3%) and 98.3% (2016: 97.3%) 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 2017 and 2016 are not materially different from their fair values due to their short maturities.

7. TURNOVER

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

7. TURNOVER (Continued)

	2017 RMB'000	2016 RMB'000
Provision of telecommunication solutions	–	231
Trading of hardware and computer software	161,366	125,270
Provision of telecommunication value-added services	11,710	14,985
	173,076	140,486

8. SEGMENT INFORMATION

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	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Segment turnover	–	231	161,366	125,270	11,710	14,985	173,076	140,486
Segment results	–	145	117	747	(1,341)	(2,273)	(1,224)	(1,381)
Unallocated revenue							561	3,527
Unallocated expenses							(5,523)	(6,219)
Loss before tax							(6,186)	(4,073)

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' emoluments 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.

8. 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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
As at 31 December								
Segment assets	**–**	–	**51,569**	59,961	**233**	708	**51,802**	60,669
Unallocated assets							**50,748**	51,685
Total assets							**102,550**	112,354
Segment liabilities	**–**	3	**2,439**	2,032	**32**	73	**2,471**	2,108
Unallocated liabilities							**2,839**	8,435
Total liabilities							**5,310**	10,543

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 and certain prepayments and other receivables which are unable to allocate into reportable segments; and
- all liabilities are allocated to reportable segments other than certain other payables. Liabilities for which reportable segments are jointly liable are allocated on the basis of the revenues earned by individual reportable segments.

8. 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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	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	**–**	–	**263**	–	**36**	180	**661**	–	**960**	180
Impairment loss on inventories	**–**	–	**6**	–	**–**	–	**–**	–	**6**	–
Depreciation	**–**	–	**87**	12	**321**	433	**160**	244	**568**	689
Write back of impairment loss on trade receivables	**–**	–	**–**	(10)	**–**	–	**–**	–	**–**	(10)
Impairment loss on trade receivables	**–**	–	**432**	–	**–**	–	**–**	–	**432**	–
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:										
Impairment loss/written off on other receivables	**–**	–	**–**	–	**–**	–	**715**	–	**715**	–
Loss on disposal of plant and equipment	**–**	–	**16**	–	**–**	–	**–**	15	**16**	15
Written off of plant and equipment			**36**	–	**18**	–	**–**	–	**54**	–
Interest income	**–**	–	**–**	–	**–**	–	**(203)**	(292)	**(203)**	(292)
Written off of other payables	**–**	–	**–**	–	**–**	–	**(3,971)**	(1,000)	**(3,971)**	(1,000)

(d) Geographical information

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

(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:

	2017	2016
	RMB'000	RMB'000
Customer A[1]	**93,843**	39,727
Customer B[1]	**28,930**	48,525

1 Customer to the trading of hardware and computer software segment.

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

The details of emoluments of each of fifteen (2016: nine) directors, including chief executive, and eight (2016: five) supervisors for the years ended 31 December 2017 and 2016 are set out below:

For the year ended 31 December 2017	Executive directors									Independent non-executive directors						
	Mr. Chen Ping RMB'000 (Notes a,d)	Mr. Chao Hong Bo RMB'000 (Note b)	Mr. Xia Zhen Hai RMB'000 (Note b)	Mr. Xie Fei RMB'000 (Note b)	Mr. Qi Jinsong RMB'000 (Notes c, d)	Mr. Guan Zilong RMB'000 (Notes c, d)	Mr. Xu Jianfeng RMB'000 (Notes c, d)	Mr. Wang Linhua RMB'000 (Notes b, d)	Mr. Wang Yong Gui RMB'000 (Notes b, d)	Mr. Cai Xiao Fu RMB'000 (Note b)	Mr. Zhang De Xin RMB'000 (Note b)	Mr. Gu Yu Lin RMB'000 (Note b)	Mr. Cai Jiamei RMB'000 (Note c)	Ms. Huang Lianxi RMB'000 (Note c)	Mr. Shen Haiying RMB'000 (Note c)	Sub-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	-	-	-	-	-	-	-	-	-	-	-	-	50	50	50	150
Other emoluments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	10	-	-	-	70	179	62	12	240	-	-	-	-	-	-	573
Contributions to retirement benefits schemes	-	-	-	-	-	28	17	3	7	-	-	-	-	-	-	55
	10	-	-	-	70	207	79	15	247	-	-	-	50	50	50	778

For the year ended 31 December 2017	Supervisors									
	Mr. Xie Jian Ping RMB' 000 (Notes a, b)	Mr. Wang Li Jun RMB'000 (Note b)	Ms. Liu Chun Fang RMB'000 (Note b)	Ms. Wang Xiao Li RMB'000 (Notes a, b)	Mr. Feng Pei Xian RMB'000 (Note b)	Mr. Chen Jian RMB'000 (Note c)	Mr. Yu Hui RMB'000 (Note c)	Ms. Yao Yajuan RMB'000 (Note c)	Sub-total 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	-	-	-	-	-	3	3	-	6	156
Other emoluments	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	35	35	608
Contributions to retirement benefits schemes	-	-	-	-	-	-	-	-	-	55
	-	-	-	-	-	3	3	35	41	819

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

	Executive directors						Independent non-executive directors			Supervisors					
For the year ended 31 December 2016	Mr. Chen Ping RMB'000 (Notes a,d)	Mr. Chao Hong Bo RMB'000 (Note b)	Mr. Xia Zhen Hai RMB'000 (Note b)	Mr. Xie Fei RMB'000 (Note b)	Mr. Wang Linhua RMB'000 (Notes b, d)	Mr. Wang Yong Gui RMB'000 (Notes b, d)	Mr. Cai Xiao Fu RMB'000 (Note b)	Mr. Zhang De Xin RMB'000 (Note b)	Mr. Gu Yu Lin RMB'000 (Note b)	Mr. Xie Jian Ping RMB'000 (Notes a, b)	Mr. Wang Li Jun RMB'000 (Note b)	Ms. Liu Chun Fang RMB'000 (Note b)	Ms. Wang Xiao Li RMB'000 (Note a, b)	Mr. Feng Pei Xian RMB'000 (Note b)	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	–	–	3	–	3	242
Other emoluments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
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

Notes:

(a) During the year ended 31 December 2016, the emoluments of Mr. Xie Jian Ping and Ms. Wang Xiao Li of approximately RMB72,000 and 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.

(b) During the year ended 31 December 2017, Mr. Chao Hong Bo, Mr. Xia Zhen Hai, Mr. Xie Fei, Mr. Wang Linhua and Mr. Wang Yong Gui have resigned as executive directors. Mr. Zhang De Xin, Mr. Cai Xiao Fu and Mr. Gu Yu Lin have resigned as the independent non-executive directors. Ms. Liu Chun Fang, Mr. Xie Jian Ping, Mr. Wang Li Jun, Mr. Feng Pei Xian and Ms. Wang Xiao Li have resigned as the supervisors.

(c) During the year ended 31 December 2017, Mr. Qi Jinsong, Mr. Guan Zilong and Mr. Xu Jianfeng have been appointed as the executive directors. Mr. Cai Jiamei, Ms. Huang Lianxi and Mr. Shen Haiying have been appointed as the independent non-executive directors. Mr. Chen Jian, Mr. Yu Hui and Ms. Yao Yajuan have been appointed as supervisors.

(d) During the year ended 31 December 2017, Mr. Chen Ping is resigned from the chief executive of the Company and Mr. Qi Jinsong has been appointed as the chief executive. Mr. Wang Linhua is resigned from the financial controller of the Company and Mr. Guan Zilong has been appointed as the financial controller. Mr. Wang Yong Gui has resigned as the secretary of the Board of Directors and Mr. Xu Jianfeng has been appointed as the secretary of the Board. Their emoluments disclosed above include those for services rendered by them as the chief executive, financial controller and the secretary of the Board respectively.

(e) None of the directors or supervisors waived or agreed to waive any emoluments paid by the Group for the years ended 31 December 2017 and 2016.

(f) 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 2017 and 2016.

10. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals include one (2016: three) Directors, whose emoluments have been included in note 9 above. The emoluments of the remaining four (2016: two) individuals were as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other benefits	**1,043**	516
Contributions to retirement benefits scheme	**114**	50
	1,157	566

The emoluments of each of these individuals for both years were less than HK$1,000,000 or equivalent to approximately RMB835,910 (2016: RMB857,087).

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 2017 and 2016.

11. INCOME TAX CREDIT

	2017 RMB'000	2016 RMB'000
Overprovision in previous years		
PRC Enterprise Income Tax	**(1,615)**	(140)
	(1,615)	(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 2017 and 2016. One of the subsidiaries was subject to EIT at a rate of 15% for the year ended 31 December 2016 as it is classified as a High and New Technology Enterprise and the certificate has been expired during the year.

No provision for Enterprise Income Tax (the "PRC EIT") for the Group for the years ended 31 December 2017 and 2016 as there was no assessable profit derived by the Group for both years.

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 2017 and 2016.

11. INCOME TAX CREDIT (Continued)

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

	2017 RMB'000	2016 RMB'000
Loss before tax	**(6,186)**	(4,073)
Tax at the domestic income tax rate of 25% (2016: 15%) (Note)	**(1,547)**	(611)
Tax effect of different tax rates of subsidiaries	**(1)**	(321)
Tax effect of expenses not deductible for tax purpose	**430**	767
Tax effect of income not taxable for tax purpose	**(956)**	(252)
Tax effect of tax losses not recognised	**2,085**	417
Utilisation of previously unrecognised tax losses	**(11)**	–
Overprovision in previous years	**(1,615)**	(140)
Income tax credit for the year	**(1,615)**	(140)

Note: The PRC EIT rate of 25% (2016: 15%) was used as it was the domestic tax rate where the results and operation of the Group is substantially derived from during the year ended 31 December 2017.

12. LOSS FOR THE YEAR

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

	2017 RMB'000	2016 RMB'000
Salaries and other benefits (including directors', chief executive's and supervisors' emoluments)	**4,405**	4,109
Severance payments	**21**	210
Contributions to retirement benefits scheme	**726**	530
Total staff costs	**5,152**	4,849
Auditors' remuneration	**511**	489
Government grants (note a)	**(87)**	(275)
Interest income	**(203)**	(292)
Rental Income	**(157)**	–
Depreciation of plant and equipment	**568**	689
Loss on written off of plant and equipment (included in general and administrative expenses)	**54**	–
Loss on disposal of plant and equipment (included in general and administrative expenses)	**16**	15
Write back of impairment loss on trade receivables	**–**	(10)
Write off of other payables	**(3,971)**	(1,000)
Impairment loss on inventories (included in cost of sales)	**6**	–
Impairment loss on trade receivables (included in general and administrative expenses)	**432**	–
Impairment loss/written off on other receivables (included in general and administrative expenses)	**715**	–
Exchange loss (gain)	**1,804**	(2,093)
Operating lease rental for office premises	**2,001**	1,670
Cost of inventories recognised as an expense	**158,670**	122,713

12. LOSS FOR THE YEAR (Continued)

Note (a): Government grants received during the years ended 31 December 2017 and 2016 relates to rebate of other taxes and value-added tax. There are no unfulfilled conditions or contingencies relating to those grants.

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: 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 RMB4,392,000 (2016: RMB3,530,000) and on the weighted average number of 506,546,000 (2016: 506,546,000) shares in issue during the year ended 31 December 2017.

Diluted loss per share was the same as basic loss per share for the years ended 31 December 2017 and 2016 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 2016	3,830	1,262	2,875	7,967
Additions	–	–	180	180
Disposals	–	–	(354)	(354)
At 31 December 2016	3,830	1,262	2,701	7,793
Additions	661	–	299	960
Written off	(3,830)	–	(997)	(4,827)
Disposals	–	–	(25)	(25)
At 31 December 2017	**661**	**1,262**	**1,978**	**3,901**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2016	3,830	730	2,110	6,670
Provided for the year	–	226	463	689
Eliminated on disposals	–	–	(339)	(339)
At 31 December 2016	3,830	956	2,234	7,020
Provided for the year	109	51	408	568
Eliminated on written off	(3,830)	–	(943)	(4,773)
Eliminated on disposal	–	–	(8)	(8)
At 31 December 2017	**109**	**1,007**	**1,691**	**2,807**
CARRYING VALUES				
At 31 December 2017	**552**	**255**	**287**	**1,094**
At 31 December 2016	–	306	467	773

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	Over the shorter of term of the lease or 3-6 years
Motor vehicles	5-8 years
Office furniture, fixtures and other equipment	3-5 years

16. INTANGIBLE ASSETS

	Patents RMB'000	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
COST				
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	250	11,774	11,360	23,384
AMORTISATION AND IMPAIRMENT				
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	250	11,774	11,360	23,384
CARRYING VALUES				
At 31 December 2017	**–**	**–**	**–**	**–**
At 31 December 2016	–	–	–	–

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 2016, 31 December 2016, 1 January 2017 and 31 December 2017	956
IMPAIRMENT	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	956
CARRYING AMOUNTS	
At 31 December 2017	**–**
At 31 December 2016	–

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

18. INVENTORIES

	2017 RMB'000	2016 RMB'000
Computer software and hardware	**3,143**	1,861

19. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**44,348**	61,372
Less: Impairment losses	**(978)**	(4,237)
	43,370	57,135

There were no specific credit period granted to customers except for an average credit period of 60 – 180 days (2016: 60 – 180 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:

	2017 RMB'000	2016 RMB'000
0 to 60 days	**25,596**	56,755
61 to 90 days	**5,255**	1
91 to 180 days	**12,491**	31
Over 180 days	**28**	348
	43,370	57,135

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:

	2017 RMB'000	2016 RMB'000
Less than 3 months	**12,033**	1
More than 3 months but less than 1 year	**–**	366
More than 1 year	**28**	13
	12,061	380

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB12,061,000 (2016: RMB380,000) 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:

	2017 **RMB'000**	2016 RMB'000
Balance at beginning of the year	**4,237**	4,932
Impairment loss recognised during the year	**432**	–
Amounts written off during the year	**(3,691)**	(685)
Amounts recovered during the year	**–**	(10)
Balance at end of the year	**978**	4,237

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 RMB978,000 (2016: RMB4,237,000) which were long outstanding.

20. PREPAYMENTS AND OTHER RECEIVABLES

	2017 **RMB'000**	2016 RMB'000
Prepayments to suppliers	**5,508**	1,974
Less: Impairment losses	**(120)**	(403)
	5,388	1,571
Fund advances	**–**	6,157
Advances to employees	**–**	583
Other receivables	**973**	911
	973	7,651
Less: Impairment losses	**–**	(6,025)
	973	1,626
Prepayments and other receivables	**6,361**	3,197

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:

	2017 RMB'000	2016 RMB'000
At the beginning of the financial year	**6,428**	6,428
Impairment loss recognised	**132**	–
Amounts written off as uncollectible	**(6,440)**	–
Balance at beginning and end of the year	**120**	6,428

Amounts written off as uncollectible are as follows:

	2017 RMB'000	2016 RMB'000
Fund advances	**6,157**	–
Advances to employees	**583**	–
Amounts written off as uncollectible	**6,740**	–

All fund advances and advances to employees are unsecured, interest-free and repayable on demand.

At 31 December 2016, included in the gross amount of fund advances is balances due from related parties (note 27(a)) and independent third parties of approximately RMB1,486,000 and RMB4,671,000 respectively. Accumulated impairment loss of approximately RMB6,025,000 is provided in respect of such advances. During the year ended 31 December 2017, an amount of approximately RMB6,157,000 is written off as uncollectible.

At 31 December 2016, included in the gross amount of advances to employees are balances due from related parties (note 27(a)) and independent third parties of approximately RMB208,000 and RMB375,000 respectively. At 31 December 2017, the amount was written off as uncollectible.

Included in the impairment losses are individually impaired prepayments and other receivables with an aggregate balance of approximately RMB120,000 (2016: 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 2017 and 2016 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

Bank balances carried interest rate at average market rate of 0.30% to 1.11% for RMB (2016: 0.30% to 0.35% for RMB) per annum.

22. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**1,672**	1,598
Other payables and accruals	**3,081**	7,151
	4,753	8,749

22. TRADE AND OTHER PAYABLES (Continued)

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

	2017 RMB'000	2016 RMB'000
Less than one year	**1,320**	1,403
Over one year but less than two years	**133**	18
Over two years but less than three years	**18**	–
More than three years	**201**	177
	1,672	1,598

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.

23. PAID-IN CAPITAL

	Number of shares		Amount	
	2017 '000	2016 '000	2017 RMB'000	2016 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 and 31 December	**262,125**	262,125	**26,213**	26,213
Total	**506,546**	506,546	**50,655**	50,655

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 2017, the Group had unused tax losses amounted to approximately RMB35,789,000 (2016: RMB31,719,000) 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.

	2017 **RMB'000**	2016 RMB'000
Unused tax losses expiring in year of assessment:		
2017	**–**	4,226
2018	**4,136**	4,180
2019	**10,916**	10,916
2020	**11,140**	11,140
2021	**1,257**	1,257
2022	**8,340**	–
	35,789	31,719

26. COMMITMENTS

a) 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 five years (2016: two to four 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:

	2017 **RMB'000**	2016 RMB'000
Within one year	**1,365**	426
In the second to fifth year inclusive	**2,120**	–
	3,485	426

The Group as lessor

Rental income earned during the year was RMB157,000 (2016: nil). The Group leases its rented property under operating lease arrangement. Lease is negotiated for a term of one to three years (2016: nil) with fixed rentals throughout the rental period.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments

	2017 **RMB'000**	2016 RMB'000
Within one year	**157**	–
In the second to fifth year inclusive	**105**	–
	262	–

26. COMMITMENTS (Continued)

b) Capital commitment

At the end of the reporting period, the Group had the following contracted for but not provided capital commitment:

	2017 RMB'000	2016 RMB'000
Acquisition of a subsidiary	**25,200**	–

27. RELATED AND CONNECTED PARTY TRANSACTIONS

(a) Balances with related parties

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

As at 31 December 2017

Name of related party	Loan nature	Gross outstanding amount at 31/12/2017 RMB'000	Impairment/ Amount written off RMB'000	Net outstanding amount at 31/12/2017 RMB'000	Maximum amount owed to the Group during the year RMB'000
Mr.Wang Linhua [2]	Quasi-loan	**8**	**(8)**	**N/A**	**8**
浙江元幸信息科技有限公司 [3]	Quasi-loan	**132**	**(132)**	**N/A**	**132**
Mr. Xie Jian Ping [4]	Quasi-loan	**200**	**(200)**	**N/A**	**200**
		340	**(340)**	**–**	

As at 31 December 2016

Name of related party	Loan nature	Gross outstanding amount at 31/12/2016 RMB'000	Impairment/ Amount written off RMB'000	Net outstanding amount at 31/12/2016 RMB'000	Maximum amount owed to the Group during the year RMB'000
浙江元幸信息科技有限公司 [3]	Quasi-loan	132	–	132	753
杭州賽爾網絡技術有限公司 [1]	Quasi-loan	1,354	(1,354)	–	1,354
Mr. Xie Jian Ping [4]	Quasi-loan	200	–	200	200
Mr.Wang Linhua [2]	Quasi-loan	8	–	8	8
		1,694	(1,354)	340	

27. RELATED AND CONNECTED PARTY TRANSACTIONS (Continued)

(a) Balances with related parties

[1] Mr. Chen Ping is the common executive director.

[2] Mr. Wang Linhua is an executive director of the Company. Mr. Wang has resigned as the director of the Company on 8 May 2017.

[3] Mr. Xie Jian Ping is the supervisor of the Company and the beneficial owner of that company. Mr. Xie has resigned as the supervisor of the Company on 8 May 2017.

[4] Mr. Xie Jian Ping is the supervisor of the Company. Mr. Xie has resigned as the supervisor of the Company on 8 May 2017.

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:

	2017 RMB'000	2016 RMB'000
Short-term benefits	**1,548**	1,225
Post-employment benefits	**169**	111
	1,717	1,336

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

28. 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 RMB726,000 (2016: RMB530,000) represents contributions payable to this scheme by the Group in respect of the current accounting period.

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Plant and equipment		**644**	14
Investments in subsidiaries	(a)	**11,504**	12,453
		12,148	12,467
Current assets			
Trade receivables		**42,048**	54,859
Prepayments and other receivables		**135**	1,030
Bank balances and cash		**44,191**	43,965
		86,374	99,854
Current liabilities			
Trade and other payables		**2,171**	3,123
Amounts due to subsidiaries	(b)	**11,377**	11,377
Income tax payables		**–**	20
		13,548	14,520
Net current assets		**72,826**	85,334
NET ASSETS		**84,974**	97,801
Capital and reserves			
Paid-in capital		**50,655**	50,655
Reserves	(c)	**34,319**	47,146
TOTAL EQUITY		**84,974**	97,801

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) Investments in subsidiaries

	2017 RMB'000	2016 RMB'000
Unlisted investments, at cost	**19,880**	19,880
Accumulated impairment losses	**(8,376)**	(7,427)
	11,504	12,453

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

(c) 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 2016	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
Loss and total comprehensive expense for the year	–	–	(12,827)	(12,827)
At 31 December 2017	101,336	7,934	(74,951)	34,319

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2017 and 2016 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 Directly	Proportion of ownership interest held by Company Indirectly	Principal activities
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
杭州華光計算機工程有限公司	Private Limited	PRC	Registered capital of RMB10,000,000	100%	–	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 2017	Number of subsidiaries 2016
Inactive	Hong Kong	**1**	1
Inactive	The PRC	**3**	2

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

31. EVENTS AFTER REPORTING PERIOD

On 29 September 2017, the Company as the purchaser, entered into an equity transfer agreement with Hangzhou Kameng Internet Technology Company Limited (杭州卡盟網絡科技有限公司) and Mr. Zhang Xuguang, independent third parties, which directly held 25% and 75% respectively of the equity interests in Increator Technology Co., Ltd. ("Increator") (浙江創建科技有限公司), to acquire 100% equity interests in Increator at a cash consideration of RMB25,200,000. Increator is a company incorporated in the PRC with limited liability and is principally engaged in software development and provision of value-added services.

The acquisition was approved by the shareholders of the Company on 29 January 2018 and completed on 5 February 2018. Details of the transaction are set out in the Company's circular dated on 15 December 2017 and the Company's announcement dated 12 February 2018 respectively.

The initial accounting for the acquisition of Increator remained incomplete pending the determination of fair values of certain identified assets of Increator. In the opinion of the Directors, these assets represent a substantial portion of the value of the net identifiable assets and liabilities of Increator and will have a determining effect on the amount of reserve to be recognised. As there is no reasonable basis in which the Directors can estimate the provisional values of these assets, the assets and liabilities information of Increator as at the acquisition date are not disclosed in these consolidated financial statements.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**173,076**	140,486	64,654	48,130	61,410
Cost of sales	**(159,556)**	(125,308)	(50,432)	(29,914)	(30,155)
Gross profit	**13,520**	15,178	14,222	18,216	31,255
Other operating income	**4,494**	3,812	938	2,156	1,266
Distribution and selling expenses	**(7,180)**	(10,675)	(10,699)	(12,352)	(10,334)
General and administrative expenses	**(17,020)**	(12,388)	(14,910)	(19,855)	(22,904)
Loss before tax	**(6,186)**	(4,073)	(10,449)	(11,835)	(717)
Income tax credit (expenses)	**1,615**	140	–	–	(305)
Loss and total comprehensive expense for the year	**(4,571)**	(3,933)	(10,449)	(11,835)	(1,022)
Loss and total comprehensive expense for the year attributable to:					
– Owners of the Company	**(4,392)**	(3,530)	(9,381)	(11,237)	(758)
– Non-controlling interests	**(179)**	(403)	(1,068)	(598)	(264)
	(4,571)	(3,933)	(10,449)	(11,835)	(1,022)
Loss per share					
– Basic and diluted (RMB cents)	**(0.87)**	(0.70)	(2.54)	(3.15)	(0.21)

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**102,550**	112,354	116,591	92,615	109,508
Total liabilities	**(5,310)**	(10,543)	(10,847)	(16,188)	(21,246)
Non-controlling interests	**(2,755)**	(2,934)	(3,337)	(4,405)	(5,003)
Shareholders' equity	**94,485**	98,877	102,407	72,022	83,259