长虹佳华
CHANGHONG IT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code : 8016

ANNUAL REPORT 2017

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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

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CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	Unit 1412, 14/F, West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Bermuda principal share registrar and transfer office	Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 1712-1716, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong
Stock exchange	GEM of The Stock Exchange of Hong Kong Limited
Stock code	8016
Website	www.changhongit.com.hk
E-mail address	Kylen@changhongit.com.hk
Board of Directors	
Executive Directors	Mr. ZHAO Yong (Chairman) Mr. ZHU Jianqiu (President) Mr. LI Jin (alternate to Mr. ZHAO Yong) Mr. YANG Jun Ms. SHI Ping

CORPORATE INFORMATION

Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dongfeng Mr. CHENG Yuk Kin
Authorised representatives	Mr. ZHU Jianqiu Mr. ZHAO Qilin
Compliance officer	Mr. ZHU Jianqiu
Joint company secretary	Ms. KO Nga Kit Mr. ZHAO Qilin
Bermuda resident representative	Codan Services Limited
Audit Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. Robert IP Chun Chung Mr. SUN Dongfeng Mr. CHENG Yuk Kin
Remuneration Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. ZHU Jianqiu Mr. Robert IP Chun Chung Mr. SUN Dongfeng
Nomination Committee	Mr. ZHAO Yong (Chairman) Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dongfeng
Auditor	Deloitte Touche Tohmatsu 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHAO Yong, aged 55, joined the Company as an executive Director and the chairman of the Board in April 2013. Mr. Zhao is the chairman and director both Sichuan Changhong Electronics Holding Group Company Limited ("Sichuan Changhong Holding") and Sichuan Changhong Electric Co., Limited ("Sichuan Changhong Electric) and also served as the deputy mayor of Mianyang, Sichuan Province, the People's Republic of China (the "PRC") from June 2001 to June 2004. He is also the chairman and director of the Company's subsidiaries of Changhong IT Information Products Company Limited ("Changhong IT"), Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital"), Beijing Changhong IT Intelligence System Co., Ltd ("Changhong IT Intelligence"). and Sichuan Changhong IT Duolayouhuo E-Commerce Co., Ltd. ("Duolayouhuo"). He holds a Master Degree in Mechanical Engineering and a Doctoral Degree in Engineering and Thermal Dynamics Engineering from Qinghua University in the PRC and has more than 25 years of experience in general management.

Mr. ZHU Jianqiu, aged 56, joined the Company as an executive Director and the president of the Company in April 2013. Mr. Zhu is also the director and chief executive officer of each of the following subsidiaries of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT (Hong Kong) Information Products Co., Ltd. ("Changhong IT Information"), and Duolayouhuo, and the executive director of Changhong (Hong Kong) Enterprises Limited. Mr. Zhu is responsible for the overall operation and management of the Group (to be defined below). He obtained a Doctoral Degree in Economics from Renmin University and a Bachelor Degree in 1984 from Northeast University in the PRC and has more than 20 years of experience in information technology ("IT") industry management.

Mr. LI Jin, aged 51, joined the Company as an executive Director in May 2017. Mr. Li is primarily responsible for overseeing the strategies and directions of the Group. He is a director both Sichuan Changhong Holding and Sichuan Changhong Electric, and is also the general manager of Sichuan Changhong Holding. He obtained a Ph.D. in engineering from Tsinghua University（清華大學）in July 1998 and a degree of master of business administration from the University of Glasgow in August 2008. He has over 19 years of experience in corporate management.

Mr. YANG Jun, aged 48, joined the Company as an executive Director in May 2007. Mr. Yang is primarily responsible for the capital operation of the Group. He is a director of Sichuan Changhong Electric, and is also the duty general manager of Sichuan Changhong Holding. He serves in various positions within the Sichuan Changhong Electronics Group (i.e. Sichuan Changhong Holding and it's subsidiaries). He is also the director of the following subsidiaries of the Company: Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo. He graduated from Chengdu Technological University（成都工業學院）in June 1991 and completed a master degree programme on business administration at the Business School of Sichuan University（四川工商管理學院）in July 2005. He has over 19 years of experience in corporate investment and corporate governance.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. SHI Ping, aged 56, joined the Company as an executive Director in May 2007. Ms. Shi is principally responsible for the investment and business merger of the Group. She obtained a Master Degree in Managerial Economics from Nanyang Technology University in Singapore, a Master Degree in Industrial Management Engineering from Chengdu University of Science and Technology and a Bachelor Degree in Chemical Engineering from Hunan University in the PRC and has more than 32 years experience in economics and engineering management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan CHAN Ming Sun, aged 46, joined the Company as an independent non-executive Director in February 2007. Mr. Chan was appointed as the chairman of each of the Audit Committee and remuneration committee of the Company, and a member of the nomination committee of the Company. He is an Investment Manager of Sprint Asset Management Limited. He is also acting as the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Shenyang Public Utility Holdings Company Limited (stock code: 747), China Dredging Environment Protection Holdings Limited (stock code: 871), Hao Tian Development Group Limited (stock code: 474), Up Energy Development Group Limited (stock code: 307)*(Note)*, Fujian Nuoqi Co., Ltd. (stock code: 1353) and Dining Concepts Holdings Limited (stock code: 8056). He was the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Far East Holdings International Limited (stock code: 36), during 14 November 2014 to 18 July 2017, L&A International Holdings Limited (stock code: 8195), during 25 September 2014 to 3 March 2017, and Focus Media Network Limited (stock code: 8112), during 21 April 2015 to 27 November 2015. He obtained his Bachelor Degree of Commerce in Accounting and Computer Information System from University of New South Wales, Australia. He is also a fellow member of the Hong Kong Institute of Directors and a member of Hong Kong Institute of Certified Public Accountants and CPA, Australia. He has over 19 years of experience in investment and corporate finance.

Mr. Robert IP Chun Chung, aged 62, joined the Company as an independent non-executive director in February 2007. Mr. Ip is the member of Audit Committee, remuneration committee and nomination committee of the Company. He is a practising solicitor in Hong Kong and is a non-executive director of Poly Property Group Co., Limited (stock code: 119), a company listed on the Stock Exchange. He was also an independent non-executive director of Value Convergence Holdings Limited (stock code: 821), a company listed on the Stock Exchange, during the period from 5 March 2012 to 7 October 2016. He obtained the Bachelor Degree in Arts from University of Hong Kong and held a CPE Diploma and Diploma in Law from the College of Law, UK. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 36 years of experience in legal aspects.

Note:

The appointment of Mr. Jonathan CHAN Ming Sun as the independent non-executive director of Up Energy Development Group Limited (stock code: 307) ("Up Energy") is under dispute. For details, please refer to the relevant announcements of Up Energy.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. SUN Dongfeng, aged 50, joined the Company as an independent non-executive Director in February 2007. Mr. Sun is the member of Audit Committee, remuneration committee and nomination committee of the Company. He is a senior partner of Guantao Law Firm as well as a legal advisor for a number of companies. He graduated from China University of Political Science and Law in the PRC, and obtained a Master Degree of Law in International Economics from the School of Law of University of Canberra, Australia. He has over 27 years of experience in legal aspects.

Mr. CHENG Yuk Kin, aged 43, joined the Company as an independent non-executive Director in November 2012. Mr. Cheng is a member of Audit Committee. He is the managing director of Able Capital Partners Limited and was an independent non-executive director of On Real International Holdings Limited (stock code: 8245) during the period from 16 September 2015 to 31 July 2017, a company listed on the Stock Exchange. He obtained his Bachelor Degree of Business Administration in Finance from Hong Kong University of Science and Technology and obtained a Master Degree of Business Administration from the George Washington University School of Business in United States of America. He is also a member of American Institute of Certified Public Accountants. He has over 21 years of experience in corporate finance and audit.

SENIOR MANAGEMENT

Ms. SU Huiqing, aged 49, is the vice president of each of the Company, Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo. Mr. Su is responsible for the management of human resources, operation and administrative of the Group. She holds a Bachelor Degree in Automation from Shanghai Jiaotong University and has more than 25 years of experience in business development in the IT industry.

Ms. YANG Na, aged 37, was appointed as the Financial Controller in November 2017.She is currently the financial controller each of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo. She obtained a bachelor's degree in management from the Qinhuangdao branch of the Northeastern University in the PRC in 2003 and a master's degree of business administration from the Graduate School of the Chinese Academy of Social Sciences in the PRC in 2012 and has 14 years of experience in accounting and financial management.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. ZHAO Qilin, was appointed as a Joint Company Secretary and Authorised Representative in November 2017. Prior to his appointment as a Joint Company Secretary, he was the financial controller of the Company. Mr. Zhao is also an executive director of Changhong (Hong Kong) Enterprises Ltd.. He is the secretory of Board of Changhong IT, Changhong IT Digital, Changhong IT Intelligence and Duolayouhuo. He holds a Bachelor Degree in Economics from Southwestern University of Finance and Economics in the PRC and has more than 11 years of experience in accounting and financial management.

Ms. KO Nga Kit, was appointed as a Joint Company Secretary in November 2017. She is a vice president of SW Corporate Services Group Limited and has over 25 years of experience in the corporate services field. She is a fellow member of both The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. In addition, she holds a bachelor's degree in laws and a post-graduate diploma in corporate compliance.

Save as disclosed above, as at 31 December 2017, none of directors/senior management holds any other position within the Group.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2017, the business of the Company and its subsidiaries (collectively, the "Group") continued to operate in a prudent manner, along with the growth of global economy.

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2017 was approximately HK$21,024.26 million (2016: HK$19,063.25 million), representing an increase of 10.29% as compared with the previous year. The Group achieved stable operation during the year ended 31 December 2017.

- Profit for the year ended 31 December 2017 was approximately HK$244.53 million (2016: HK$232.77 million) and total comprehensive income for the year ended 31 December 2017 was approximately HK$356.18 million (2016: HK$134.37 million). These increases were mainly attributable to the improvement of operational efficiency as a result of the Group's further control over its operational costs.

BUSINESS REVIEW

2017 BUSINESS REVIEW

In 2017, major economies in the world all grew in the same pace. The countries of emerging market presented a strong growth, while the developed countries enjoyed a stable recovery. Chinese economy shifted from a fast growth to a high quality one, demonstrating a more sustainable trend. IT technologies, such as cloud computing, big data, block chain, artificial intelligence and mobile internet, have grown very fast, becoming the critical factors for integrated development of various industries. In 2017, the Group further integrated the international technology with product resources, expanded the traditional distribution business steadily, and made efforts to develop the cloud computing and big data business, and put the big data solution into practice. In 2017, the Group built and improved the internet distribution platform, explored and built business models based internet distribution, expanded sale channels and products incremental, and promoted the integration between on-line channels and off-line ones. In 2017, the main business scale and revenue of the Group both grew well.

CHAIRMAN'S STATEMENT

In 2017, the Group recorded revenue of approximately HK$21,024.26 million, representing an increase of 10.29% as compared with that in the corresponding period of the last financial year. The gross profit margin in 2017 was 3.66%, representing a decrease of approximately 0.31% as compared with that in the corresponding period of the last financial year, mainly due to intense market competition and the increase in contribution from the sale of product lines with relatively lower gross profit margins. In 2017, profit attributable to shareholders amounted to approximately HK$244.53 million, representing an increase of approximately 5.05% as compared with that in the corresponding period of the last financial year, and basic earnings per share amounted to HK 9.51 cents, representing an increase of approximately HK 0.45 cents as compared with HK 9.06 cents in the corresponding period of the last financial year.

In 2017, the Group continued to strengthen its risk management and control, reinforced management over accounts receivables and inventory, allocated funds rationally, accelerated assets turnover, and maintained sufficient working capital; the Group further integrated business process with finance process to continuously optimize operation management. In 2017, the net increase in cash and cash equivalents was approximately HK$191.55 million, representing a significant increase as compared with HK$115.73 million in the corresponding period of the last financial year; the overall operating expense ratio recorded a decrease of 0.24% as compared with that in the corresponding period of the last financial year.

IT consumer products distribution business: in view of the continuous demands drop in PC market, the Group deepened cooperation with core manufacturers, worked carefully and diligently improved the marketing and service capacity through on-line channels, ensuring a growth of scale and a sustainable market share. At the same time, the Group worked on to improve the functioning and operating systems of internet distribution platform, enhanced the business operation efficiency, and expanded the coverage of channels via various products combinations and professional on-line and off-line service. Revenue in this segment increased by 10.26% to HK$10,809.34 million as compared with the corresponding period of last year, while its profit increased by 5.87% to HK$194.40 million.

IT corporate products distribution business: the Group maintained good operation and achieved significant growth in the traditional distribution business, and continued to expand the scale of localization business. In terms of cloud computing, the Group actively sought new cooperation models and developed the business of cloud solutions. In terms of big data, the Group offered the optimized and integrated products and service to customer through domestic channel resources based on the world-leading technology platform and products, launching big data solutions for industries. Revenue in this segment increased by 11.84% to HK$5,560.74 million as compared with the corresponding period of last year. Profit in this segment increased by 10.70% to HK$256.70 million.

Other business: revenue in the smart phone segment increased by 8.54% to HK$4,654.18 million as compared with the corresponding period of last year due to growing sales channels. Profit in this segment decreased by 67.44% to HK$13.89 million as compared with the corresponding period of last year due to the drop of sales of LBS product with relative high margin.

CHAIRMAN'S STATEMENT

To enhance the trading liquidity of the shares of the Company and to promote the Company's corporate image to public investors, the Company submitted an application for the transfer of listing of its shares from the GEM to the Main Board of the Stock Exchange to the Stock Exchange on 28 April 2015 and subsequently made a re-submission to the Stock Exchange on 6 November 2015 (the "Second Application"). The Second Application lapsed on 6 May 2016 and no re-submission has been made at this stage. For further details, please refer to the announcements of the Company dated 28 April 2015, 6 November 2015 and 6 May 2016. The Company may make re-submission as and when the Board considers appropriate and further updates will be provided by the Company from time to time as and when appropriate.

On 4 May 2017, Mr. Yu Xiao and Mr. Wu Xiangtao have tendered their resignations as executive Directors with effect from 4 May 2017 in order to devote more time to their other business commitments. Mr. Li Jin and Mr. Yang Jun have been appointed as executive Directors with effect from 4 May 2017. In addition, Mr. Zhao Yong has appointed Mr. Li Jin as his alternate director with effect from 4 May 2017. For further details, please refer to the announcement of the Company dated 4 May 2017.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2017, the Group's financial and liquidity positions remained healthy and stable. As at 31 December 2017, the aggregate outstanding borrowings of the Group were approximately HK$459.82 million (2016: HK$315.07 million), which were partially unsecured and interest bearing. The increase in the Group's borrowings was due to the increase in demand of payment as compared with the corresponding period of last year. The Group's cash and bank balances amounted to approximately HK$597.65 million (2016: HK$307.40 million), together with trade and bills receivables amounting to approximately HK$1,494.68 million (2016: HK$1,400.83 million). For the year ended 31 December 2017, the Group's net current assets amounted to approximately HK$1,554.38 million (2016: HK$1,323.90 million) and the Group did not have any charges on its fixed assets (2016: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 31 December 2017 was 1.87 times (2016: 1.81 times). The management of the Group is confident that with proper funding arrangements, the Group's financial resources are sufficient to finance its daily operations.

The Group's monetary assets and liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. As the spread of exchange rate of Renminbi is locked and the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal. The Company will however continue to monitor the situation and assess whether any hedging arrangement is necessary.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2017, the total number of the Group's staff was 1,063 (2016: 1,203 staff). For the year ended 31 December 2017, Total staff costs (including Directors) amounted to approximately HK$221.75 million (2016: HK$236.22 million）. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The remuneration of executive Directors is determined based on the Company's financial position in a fixed sum; whereas the remuneration of independent non-executive Directors is determined with reference to the prevailing market conditions and the workload. The Group provides retirement benefit for its employees in Hong Kong in the form of mandatory provident fund, and pays social pension insurance and housing provident fund for its employees in China in accordance with the local laws and regulations.

During the year ended 31 December 2017, there were no outstanding share options granted or exercised as the share option scheme previously adopted by the Company had expired.

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

CAPITAL STRUCTURE

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

Capital of the Group comprises all components of equity, cash and bank balances and loans from major shareholders of the Company (the "Shareholders") or related companies.

Loans from major Shareholders or related companies are mainly for the purpose of supporting the daily operations of the Group.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In order to promote the strategic transformation of the Group, provide a one-stop internet distribution platform for customers and assist distributors and retailers to transform towards "Internet+" in the PRC, the Company resolved to establish a wholly-owned subsidiary named Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd.*(四川長虹佳華哆啦有貨電子商務有限公司)("Duolayouhuo") with a capital contribution of RMB100 million on 23 February 2017. Duolayouhuo was established in the PRC on 9 March 2017 and is engaged in, among other things, wholesale and retail of electronic products, computer hardware and software, communication equipment; provision of computer technology consulting services and e-commerce services; and development, design and application of computer software. For further details in relation to the establishment of Duolayouhuo, please refer to the announcement of the Company dated 23 February 2017.

Save as disclosed above, the Company did not have any other significant investments, acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

The Group will continue to devote to the IT distribution business and IT integrated service while exploring new business opportunities that would enhance its businesses. No concrete plan for future investments is in place as at the latest practicable date prior to the printing of this report.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities.

EVENTS OCCURRED SINCE THE END OF THE FINANCIAL YEAR

There was no significant events occurred after 31 December 2017 that might affect the Group.

OUTLOOK

Going forward, in 2018, the global economy is expected to maintain a good growing trend, while still faced with certain risks and challenges, resulting in great uncertainties and mounting systemic financial risks in global trade. Driven by supply-side structural reform and strategy of innovation-driven development, Chinese economy will be kept on fast and steady growth track. As cloud computing technology develops and is used more in practice, the cloud application and cloud service will be used more widely in corporates. A new generation artificial intelligence will push all sectors in society and economy to accelerate their shift from being digital and network-based to being smart, creating new demands, new products and new industries. Under this new industry development trend, the Group will continue to shift itself to be an integrated IT service provider. In 2018, the Group will formulate the business operation policies of "expanding omni-channel, being professional, and developing new distribution and being a partner to help customer grow" to seize the opportunity for a fast growth. The Group will help manufacturers to construct a full omni-channel and provide support and service to Omni-Channel partners. The Group will define and lead the transform and upgrade of IT distribution industry in China, and explore for new markets, new products and new models that could add value to our partners. Confident about its capacity in this industry and its choice of a path for development, the Group will share its growth with partners and create more value for our shareholders.

PRINCIPAL RISKS AND UNCERTAINTIES FACED BY THE COMPANY

The Group’s financial conditions, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The business of the Group is highly dependent on the overall financial condition of the PRC and is affected by seasonality factors. Any market downturn in China generally may adversely affect the Group’s business, results of operations and financial position. The Group continues to closely follow the macroeconomic situation and actively cope with the market changes, and try to avoid the operating risks caused by the changes in the macroeconomic situation.

Also, the Group’s business relies heavily on a small number of key suppliers and products. Any failure to maintain a good relationship with the suppliers may adversely affect the Group’s revenue and profitability as a whole. The Group is committed to helping brand owners explore the market with excellent marketing services, and strives to maintain long-term and close business relations with brand owners. At the same time, the Group will adopt several means, such as introducing new brand owners and new product lines, in a timely manner to expand the scope of business, so as to reduce the degree of dependence on a small number of major suppliers.

CHAIRMAN'S STATEMENT

Further, in the course of its business, the Group also faces inventory risks if stock levels are not properly monitored and managed, or in the event of any failure to predict sales accurately. The Group continues to strengthen its tracking of market demand information, monitor daily inventory of distributors, and reasonably arrange the incoming purchase from suppliers upstream, with an aim to maintain appropriate inventory level.

Foreign Currency Risk

The Group primarily operates its business in the PRC. The currency in which the Group denominates and settles substantially all of its transactions is Renminbi. Any depreciation of Renminbi would adversely affect the value of any dividends the Group pay to the Shareholders outside of the PRC. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

ZHAO Yong
Chairman

23 March 2018

CORPORATE GOVERNANCE REPORT

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules which sets out corporate governance principles and code provisions (the "Code Provisions"). Throughout the year ended 31 December 2017, the Company has complied with all the Code Provisions as set out under the CG Code.

COMMUNICATION WITH SHAREHOLDERS

The Company made substantial efforts to enhance communications with its Shareholders, and the Board tries to fully address any questions raised by the Shareholders.

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

SHAREHOLDERS' RIGHTS

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

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

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

BOARD OF DIRECTORS AND MANAGEMENT

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

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

CORPORATE GOVERNANCE REPORT

The Board currently comprises 9 members and their positions are as follows:

Executive Directors

Mr. ZHAO Yong (Chairman)
Mr. ZHU Jianqiu (President)
Mr. YU Xiao (resigned on 4 May 2017)
Mr. WU Xiangtao (resigned on 4 May 2017)
Mr. LI Jin (appointed on 4 May 2017, alternate to Mr. ZHAO Yong)
Mr. YANG Jun (appointed on 4 May 2017)
Ms. SHI Ping

Independent Non-Executive Directors

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

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

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

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

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

BOARD MEETINGS

Board meetings are held at least once a quarter and during any given financial year when necessary. During the year ended 31 December 2017, the Board met on 10 occasions and the details of the attendance of the Directors at the respective meetings were as follows:

Name of Directors	Annual general meeting/ Special general meeting	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting
Executive Director					
Mr. ZHAO Yong	2/2	6/10	N/A	1/1	N/A
Mr. ZHU Jianqiu	2/2	10/10	N/A	N/A	1/1
Mr. YU Xiao (resigned on 4 May 2017)	N/A	1/4	N/A	N/A	N/A
Mr. WU Xiangtao (resigned on 4 May 2017)	N/A	3/4	N/A	N/A	N/A
Mr. LI Jin (appointed on 4 May 2017)	1/2	4/6	N/A	N/A	N/A
Mr. YANG Jun (appointed on 4 May 2017)	2/2	6/6	N/A	N/A	N/A
Ms. SHI Ping	2/2	7/10	N/A	N/A	N/A
Independent Non-executive Director					
Mr. Jonathan CHAN Ming Sun	2/2	8/10	4/4	1/1	1/1
Mr. Robert IP Chun Chung	2/2	9/10	4/4	1/1	1/1
Mr. SUN Dongfeng	2/2	8/10	4/4	1/1	1/1
Mr. CHENG Yuk Kin	2/2	8/10	4/4	N/A	N/A

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

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

In addition to the above formal meetings, the Company also arranged informal meetings with all or part of the Directors in 2017 to promote Directors to in-depth communicate each other and participate in the Company's business.

TRAINING

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 forums or training courses on relevant topics which may count towards continuous professional development training.

Pursuant to Code Provision A.6.5 of CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in appropriate continuous professional development activities by attending training courses on the topics related to corporate governance and regulations which were provided by a hired law firm/regulatory authorities or by reading materials relevant to the Company's business or to their duties and responsibilities. The training requirements for the Company Secretary according to Rule 5.15 of the GEM Listing Rules has been complied with for the year ended 31 December 2017.

As part of the continuous professional development programme, the Directors participated in various briefings as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of directors. This is in addition to Directors' attendance of meetings and review of papers and circulars sent by management. The participation of individual Directors and the Company Secretary in the training programmes held during the year of 2017 is recorded in the table below.

	Reading Regulatory updates	**Training courses provided by hired law firm/ regulatory authorities**
Executive Directors		
Mr. ZHAO Yong	✓	✓
Mr. ZHU Jianqiu	✓	✓
Mr. YU Xiao (resigned on 4 May 2017)	✓	N/A
Mr. WU Xiangtao (resigned on 4 May 2017)	✓	N/A
Mr. LI Jin (appointed on 4 May 2017)	✓	✓
Mr. YANG Jun (appointed on 4 May 2017)	✓	✓
Ms. SHI Ping	✓	✓
Independent Non-executive Directors		
Mr. Jonathan CHAN Ming Sun	✓	✓
Mr. Robert IP Chun Chung	✓	✓
Mr. SUN Dongfeng	✓	✓
Mr. CHENG Yuk Kin	✓	✓

	Reading Regulatory updates	Training courses provided by hired law firm/ regulatory authorities
Company Secretary/ Joint Company Secretary		
Mr. LEE Wing Lun (resigned on 10 November 2017)	✓	✓
Mr. ZHAO Qilin (appointed on 10 November 2017)	✓	✓
Ms. KO Nga Kit (appointed on 10 November 2017)	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE

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

During the year ended 31 December 2017, Mr. ZHAO Yong acted as chairman of the Board and Mr. ZHU Jianqiu acted as president of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors is appointed for a twelve-month term, which is renewable automatically with a fixed amount of remuneration per annum. Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng have served the Group for more than nine years. Pursuant to Code Provision A.4.3 of the CG Code, (a) an independent non-executive Director having served the Company for more than nine years could be relevant to the determination of an independent non-executive Director's independence; and (b) if an independent non-executive Director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by Shareholders and the papers to Shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected. The re-election of each of Mr. Johnathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng as an independent non-executive Director was approved by the Shareholders at the annual general meeting of the Company held on 19 May 2016. For details of the reasons why the Board believes each of Mr. Johnathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng is still independent and should be re-elected, please refer to the circular of the Company dated 30 March 2016.

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

BOARD COMMITTEES

The Company has established three Board committees: audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"). These Board committees comprise of mostly independent non-executive Directors. Each committee operates under its terms of reference which are available on the Company's website or can be obtained from the Company by written request.

AUDIT COMMITTEE

Membership

The members of the Audit Committee are Mr. Jonathan CHAN Ming Sun (Chairman), Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin. All members are independent non-executive Directors and have several years of experience and appropriate professional qualifications to fulfill their duties.

Responsibilities

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

During the year ended 31 December 2017, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited quarterly and interim results for the three months ended 31 March 2017, the six months ended 30 June 2017 and the nine months ended 30 September 2017 and the audited annual results for the year ended 31 December 2016, met with the external auditors to discuss such quarterly, interim and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

– reviewed the continuing connected transactions of the Group;

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

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

During the year ended 31 December 2017, the Audit Committee held four meetings and the details of attendance was set out on page 19 of this report. The annual results for the year ended 31 December 2017 had been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

Membership

The members of the Remuneration Committee are Mr. Jonathan CHAN Ming Sun (Chairman), Mr. ZHU Jianqiu, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng. Majority of the members are independent non-executive Directors.

Responsibilities

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

During the year ended 31 December 2017, the Remuneration Committee mainly performed the following duties:

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2017.

During the year ended 31 December 2017, the Remuneration Committee held a meeting and the details of attendance was set out on page 19 of this report.

NOMINATION COMMITTEE

Membership

The members of Nomination Committee are Mr. ZHAO Yong (Chairman), Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng. Majority of the members are independent non-executive Directors.

Nomination Procedure

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

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

Responsibilities

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

During the year ended 31 December 2017, the Nomination Committee mainly performed the following duties:

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

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

– reviewed the structure, size and composition of the Board during the year of 2017.

The Board has the authority to determine the appointment while the Nomination Committee acted as advisor. During the year ended 31 December 2017, the Nomination Committee hold one meeting and the details of attendance was set out on page 19 of this report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in Code Provision D.3.1 of the CG Code. During the year ended 31 December 2017, the Board regularly reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and the senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

REMUNERATION, APPOINTMENT AND ROTATION OF DIRECTORS

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

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

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

MANAGEMENT AND EMPLOYEES

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

Pursuant to Code Provision B.1.5, the remuneration of the members of the senior management by remuneration band for the year ended 31 December 2017 is set out below:

Remuneration band	Number of individuals
HKD500 thousand to 3,000 thousand	3
HKD3,000 thousand or above	1

Further particulars of Directors' emoluments and the five highest paid individuals discloseable pursuant to Rule 18.30 of the GEM Listing Rules are set out in notes 13 to the consolidated financial statements as set out on pages 112 to 115 of this annual report.

EXTERNAL AUDITOR

On 22 December 2016, Deloitte Touche Tohmatsu ("Deloitte") has been appointed as the new auditor of the Company due to the resignation of SHINEWING (HK) CPA Limited ("SHINEWING") on 20 December 2016 as the Company and SHINEWING could not reach consent of the 2016 annual audit fee. For details, please refer to the announcement of the Company dated 22 December 2016.

During the year ended 31 December 2017, the services provided by Deloitte included the audit of consolidated financial statements of the Group and financial statements of its subsidiaries.

The remuneration of the audit service rendered by Deloitte was mutually agreed in view of the scope of services and amounted to HK$2,100,000 and the fee paid for other assurance services amounted to HK$190,000 for the year ended 31 December 2017.

Deloitte, as the external auditor of the Company for the year ended 31 December 2016 attended the 2016 annual general meeting of the Company to respond to any enquiries about the conduct of the audit, the preparation and content of the independent auditor's report and the auditor's independence.

Save as disclosed above, there was no change in auditors of the Company in any of the preceding three years.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board conducts regular reviews on the effectiveness of the risk management and internal control systems on at least an annual basis to ensure that the operation of the Company is legal, the assets of the Company are safeguarded and the financial information that the Company relies on for the operation of its business or for the release to the public are accurate and reliable. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The management of the Group is responsible for establishing and maintaining the risk management and internal control systems for financial reporting. The Company has established a stringent internal control system for financial reporting to eliminate the risks of misstatement, omission and fraud in financial reporting. Meanwhile, with reference to external regulatory requirements, the Company's business development and the internal management procedures, the Company has reviewed the effectiveness of the internal control system for business strategy, finance, operations, marketing, legal compliance and other areas. The Company has established a comprehensive risk management system which integrates internal control and risk management system for the control of business operations with high risks. The Company also conducted assessment on the effectiveness of its internal control and risk management systems for the year ended 31 December 2017. The management of the Group believes that the internal control, risk management and financial reporting systems were effective and adequate and provided reliable financial data in the preparation of financial statements in accordance with generally accepted accounting principles.

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

CONTINUOUS EVOLVEMENT OF CORPORATE GOVERNANCE

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

CORPORATE SOCIAL RESPONSIBILITY

The Group positions itself as a new IT integrated service company with the corporate business philosophy of "being a good partner to help improvement and support success", and provides efficient and professional help and support to the world's leading IT companies, the local channel partners and our customers by leveraging on excellent marketing services, professional solutions, proprietary equipment for proprietary intellectual property rights and diversified products, thereby contributing to the growth and success of our partners and customers and continue to create value for the Shareholders.

The Group focuses on the sustainable development of coordination among the business, the society and the environment. In pursuit of economic efficiency and business development, the Group consciously incorporates social responsibility into our business strategy for an honest and compliant operation, and actively fulfills our social responsibilities and obligations, to achieve the healthy and harmonious developments between the Company and our staff, the Company and the society and the Company and the environment, and continue to create value for the Shareholders.

CORPORATE MISSION

In view of the new layout that emerged in the PRC IT industry under the new era, the Company will become a listed company with sound profitability focusing on IT business as its core and the most remarkable marketing company with an objective of establishing a new benchmark for the PRC IT industry, hence maintaining its sustainable long-term development and creating maximum returns for the Shareholders.

CORPORATE VISION

– To become a remarkable IT integrated service provider under the new era

– To become a remarkable listed company bringing satisfactory returns to the Shareholders

– To become a paradise for the career development of professional managers

CORPORATE GOVERNANCE REPORT

CORPORATE CULTURE

– Targets and results oriented: with clearly defined strategic targets, use the targets to be achieved to plan, figure out the strategies, measures and road maps in accomplishing them and then move forward step by step. Achieve targets through scientific and systemic ways of thinking and focus on results accountability.

– Simple and direct communication: Efficiency is the principle to follow and achieve targets through focused and efficient communications. Be straight to the point, have clear subjects during communication, be targets and results oriented and focus on facts but not individuals.

– Seek for truth, seek for diversity, explore other kinds of possibility: apply rules that are discovered during exploration process, seek for and apply diversity in rules. Establish new thinking model for Chinese distribution enterprises, boldly explore new directions and endeavor to achieve corporate improvement and industry perfection.

DEVELOPMENT STRATEGY

Based on our existing business, we achieve business upgrade and value promotion through the transformation model of "platform + value added" and become an integrated service provider in the professional sectors of professional IT enterprise distribution, big data and cloud computing, forging our core competitive edge and achieving the strategic transformation of our business.

In order to achieve its corporate mission, the Company has established good corporate governance practices based on the principles of integrity, transparency, openness and efficiency, and has implemented and improved various policies, internal controls procedures and other management framework. The Company will continue to learn and understand the development of corporate governance practices with reference to the world's leading institutions, relevant regulations by the regulatory bodies and the expectation of the investors. The Company will also review and enhance the corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.

COMPLIANCE MANAGEMENT

The Group is subject to various laws and regulations set by the PRC national, provincial and municipal governments relevant to the Group's business operation, including The Company Law of the Peoples Republic of China《中華人民共和國公司法》, Contract Law of the People's Republic of China《中華人民共和國合同法》and Labor Contract Law of the People's Republic of China《中華人民共和國勞動合同法》. Compliance procedures are in place to ensure adherence to the applicable laws, rules and regulations. The Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

EMPLOYMENT AND LABOUR PRACTICE

Employment

By focusing on the implementation of value creation and targeting at transparent performance and systemic management, the Group implements the scientific and fair performance management approach to secure the separation and implementation of its overall strategic goals at every segment, while maximizing the innovation and development of personal potential and talents to guide the constant growth of its staff. The Group determines staff remuneration with reference to the salary standard of industry peers in the market to enable staff to receive market-competitive remuneration according to their years of service, job functions and performance.

In order to motivate staff to achieve the strategic business objectives efficiently, stimulate their working passion and create positive working atmosphere, the Group conducts the selection and appraisal activities of "excellent staff" and "collaboration star" every year, with an aim of giving public recognition to those outstanding staff in the sales, technology, sales support, platform service and cross-functional collaboration.

At the beginning of every year, the Group convenes large annual carnival show, which will be undertaken by employees from show planning to its performance, providing a platform for staff to exhibit their capabilities and talents. The Group organizes monthly birthday parties to enable new staff of different departments to integrate into our big family more quickly. Furthermore, the Group set up mother-and-baby room, and also organizes a variety of employee-care activities irregularly, these activities include Chinese medicine treatments within the office, weekend leisure activities, wealth management knowledge seminars, match-making parties, agency services for park annual tickets, bringing different welfare experience to our employees from different aspects of work and life.

Health and safety

The Group is people-oriented, and strives to provide caring welfare and care for employees. In addition to statutory benefits, the Group sets up a number of special benefits, including free annual physical examination, meal, transportation and communication subsidies, special subsidy funds for severe illness, travel accident insurance for staff, public first-aid kits, condolence funds for marriage and childbirth of staff.

The Group puts great emphasis on safety and environmental management, follows the "prevention first" working guideline and adopts a number of measures including swiping card for access and exit, visitor registration, safety patrolling and network monitoring to safeguard its corporate normal operation order. The Group regularly conducts fire knowledge publicity and fire drills and posts security warning tips, in order to enhance the safety and environmental awareness of employees.

Development and training

The Group strives to provide a good growing environment, equitable appraisal mechanism and open position transfer opportunities for employees, to achieve the win-win situation for employees' development and the development of the Company. In 2017, the Group continued to adopt the scenario simulation method to evaluate the management ability of middle-level and key staff candidates selected for high potential talents.

In 2017, the Group officially initiated a new project so called "mentors helping the newcomers", under which selected old staff act as mentors to help new employees adapt to the working environment as soon as possible, get familiar with company system, perceive and recognize company culture, so as to take on his role quickly and fulfill relevant requirements. The project has achieved decent result.

In 2017, the Group recruited 14 employees as internal trainers, formulated and implemented a curriculum system, which included series of curriculum for new employees, professionalization and advanced operation. The Group arranged 460 training courses for the whole year, with employees participating in the training amounting to more than 8,000 person times. At the same time, the education and training fund, established in early 2008, continued to provide personalized and targeted training solutions for employees in a long-term and stable way through information technology.

In 2017, by using the Changhong E-learning platform to promote the network training courses, the Group made targeted recommendations on the courses selected by senior executives that met with the needs of business and staff. The online courses not only greatly reduce the cost, but also provide convenience for employees to arrange training time and place flexibly. Through online testing, staff can consolidate their learning. The effective implementation of network training is ensured by demand research, curriculum matching, participation in learning, reasonable application and other control procedures.

Labour standard

The Group is in compliance with the Labor Contract Law《勞動合同法》of China, Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and the relevant laws and regulations, pursuant to which employees are entitled to social insurance, housing provident fund, paid annual leave and other statutory benefits, and female employees are entitled to prenatal examination, maternity and nursing leave. Respecting human rights, the Group insists on equality employment, prohibits child labor and other forced labor as well as discrimination due to factors like religion and gender and implements same pay for same work stringently.

OPERATION PRACTICE

Upstream and downstream collaboration and operation management

As the PRC agent of numerous international renowned IT suppliers, the Group conducts extensive cooperation with suppliers to provide international leading products and solutions to channel partners. Through formulating a series of procurement policies including procurement principles, procurement methods and procurement monitoring mechanism, the Group achieves a centralized and unified comprehensive planning of procurement.

For enterprise level segment, based on the distribution of its products and relying on its own technology, resources integration and service capabilities, the Group has built a platform of applications. The Group organically integrates its products into a variety of technology and industry solutions, while providing technical support, consulting, training, qualification certification, and other value-added services, striving to become a domestic leading big data integrated service provider. The Group owns a domestic leading cloud computing experience and training center and allies with numerous renowned manufacturers to mutually provide the channel partners with solutions including data, virtualization and disaster recovery respectively, as well as the one-stop service including market consultancy and technical support, thereby facilitating closer cooperation between manufacturers and integrators.

For consumer level segment, the Group profoundly grasps the market and customer demand and owns nearly 10,000 core agents to build a channel system covering nationwide. Through maintaining a stable and long-term cooperation with manufacturers and core agents and fully ensuring the interests of all parties in the supply chain, the Group has formed a good distribution system. Meanwhile, the Group provides a good service guarantee by relying on the efficient operating platform and logistics system. The Group helps manufacturers to launch their products to the market rapidly by leveraging on its professional marketing capabilities. With unique marketing mix model, the Group integrates the products organically under its agency, with an aim to help partners to satisfy the demand of users at different levels. The Group is the first to launch the B2B internet marketing model in the industry. The integration of traditional distribution and internet distribution has enabled the Group to build a bridge between internet distribution and traditional distribution business, grow together with partners and achieve the win-win situation among many parties.

For its brand LBS and Beidou Navigation Satellite Application segment, the Group owns the design, development and production capabilities of hardware terminal and possesses various integrated solutions based on location-based service platform and has established strategic cooperation with mobile operators and domestically well-known automotive and value-added service corporations to provide business-to-business customized services to enterprises and corporate clients. At present, the Company has established a comprehensive system from research and development, production to marketing and after-sales service and passed the TS16949 and ISO9001 quality certification system. It is committed to Big Dipper civil industrial application to provide high quality, stable and user-friendly location-based service products and the related application solutions for users at enterprise level while promoting the innovation of vehicle networking and home Internet of Things application product segment.

The Group has established cooperative relations with some of the suppliers and channels for more than a decade. Since 2008, the Group has been holding "Good Business Partners" Return Banquet annually. At the Return Banquet, we sum up last year's operation, release the strategy for the next year, and provide a communication platform for the upstream and downstream partners. The Return Banquet also aims to make plans for future development with partners. So far, the Return Banquet has been held for ten consecutive years, and is unique among the IT distributors. Since launching, the "Good Business Partners" Return Banquet has served manufacturers and agent partners more than 7,000 person times and nearly 20,000 person times respectively, becoming one of the famous brand activities of the Group and well received by partners. The Group endeavors to play a pivotal role in the IT distribution industry chain, to create a good industrial ecology with partners and continuously achieve common growth.

Anti-corruption

The Group formulated a number of rules and systems including Honest Management System《廉潔管理制度》and Code of Supervision on Staff Independence《員工獨立性監管守則》to regulate our employees' behavior in economic activities, maintain the objectivity, impartiality and synergy of the Company's business activities, avoid business operation risks and prevent all kinds of conflicts of interest, secure the Company's reputation as well as interests of the Company and customers, and build a sound ordered market.

Community

Responding to the pledge of the government to employ disabled persons, the Group kick-started the disabled recruitment project officially in 2016 and gave preference to offering employment opportunities to disabled persons nearby the community and one disabled person was successfully recruited. In 2017, the Group has set up disabled special positions in the administration, personnel, finance and sales management departments and accept disabled persons who are eligible to join us, thus achieving recruitment of disabled persons. The Group has been approved as Beijing College Graduates Employment Internship Base since 2015.

Always bearing in mind its social missions and responsibilities during the development, the Group has planned and carried out a series of public benefit activities, actively participated in the social and public benefit undertakings, and greatly enhanced the building of a harmonious society. In September 2017, the Group donated 689 books to the Hope Primary School, most of which were suitable for children. Changhong Jiahua began to carry out the walking activity among all the employees since 2015, encouraging them to walk more and drive less. This activity has been conducted for three consecutive years, with nearly 800 employees participated in the activity in 2017.

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in Note 37 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2017 and a discussion of the Group's future business development and a description of principal risks and uncertainties facing the Company are set out in the Chairman's Statement on pages 9 to 15 of this annual report. An analysis of the Group's performance during the year ended 31 December 2016 using financial key performance indicators is set out in the Group's Five-year Financial Summary on pages 38 to 39 of this annual report.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group focuses on the coordinated and sustainable development among the business, the society and the environment. In pursuit of economic efficiency and business development, the Group consciously incorporates social responsibility into our business strategy for an honest and compliant operation, and actively fulfills our social responsibilities and obligations, to achieve the healthy and harmonious development between the Company and our staff, the Company and the society and the Company and the environment, and continue to create value for the shareholders. The Company strictly abides by local and national laws and rules related to environment, actively implements the concept of environmental protection and conservation, and formulates policies and measures for the management of environmental protection. The Group: 1) endeavors to adopt low-carbon methods such as trucks, railways and shipping for transportation of products; 2) installs fresh air equipment in the main office area to regularly inspect and improve the air quality in the office; 3) adopts professional drinking water cleaning and treatment proposals to guarantee the quality of drinking water; regularly replace green plants to build a healthy and clean office environment. The Group also enhances the awareness of energy saving and consumption conservation of its staff through posters and promotional videos, promotes paperless office software and secondary use of printing papers, produces portable notebooks, sends holiday e-cards and prints by swiping cards to reduce paper consumption; 4) increases the use of the renewable energy, solar hot water, while reducing the quantity of official cars and mileage, tries to use the online video conference system or teleconference to reduce business trips, energy consumption and emission of carbon dioxide in active response to the call of the State for environmental protection; 5) installs more energy-saving lighting equipment and intelligent electricity-saving system for air conditioners in offices, which can automatically adjust the turning on and off time and the temperature settings of air-conditioners according to weather conditions; 6) ensures scrapped electronic products are recycled by the unit qualified for environment-friendly recycling to prevent the environmental pollution.

i. Water and electricity usage – The Company rents offices in 26 cities in the mainland China and Hong Kong. In 2017, the Company consumed 928 megawatt hours, producing 949t carbon emission; and consumed 4,628 tons of water (the conversion factors of carbon emission involved in the electricity consumption is from the Baseline Conversion Factors of Regional Power Grid in China in 2015 (《2015年中國區域電網基線排放因子》) promulgated by the National Development and Reform Commission in response to the climate change.

ii. Fuel usage: The Company has a few vehicles used for transport and reception of senior managers. In 2017, it consumed 5,572 watt hours, producing 0.0017t carbon emission.

iii. Paper usage: The Company used 1,080,000 pieces of paper in 2017.

During the year ended 31 December 2017, the Group was subject to various laws and regulations set by the PRC national, provincial and municipal governments relevant to the Group's business operation, including The Company Law of the PRC《中華人民共和國公司法》, Contract Law of the PRC《中華人民共和國合同法》and, Labor Contract Law of the People's Republic of China《中華人民共和國勞動合同法》. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year ended 31 December 2017, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS, EMPLOYEES AND OTHER STAKEHOLDERS

The Group believes that maintaining a good relationship with its business partners, customers, suppliers, employees and other stakeholders is important to the Group's business performance and development. Accordingly, the management of the Group has kept good communication, exchanged ideas and shared business updates with the stakeholders when appropriate. The Group also creates a framework for motivating staff and maintaining close relationship with staff. During the year ended 31 December 2017, there were no material and significant disputes between the Group and its customers, suppliers, employees and/or other stakeholders.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 63 to 148 of this annual report.

The Board recommended the payment of final dividend of HK$0.03 per share of the Company (the "Share(s)") in respect of the year ended 31 December 2017 (2016: HK$0.03 per Share), and there is no arrangement that a Shareholder has waived or agreed to waive any dividend. The final dividend is expected to be paid on Thursday, 7 June 2018 to all Shareholders whose name appear on the register of members of the Company at the close of business on 24 May 2018 and is subject to approval by the Shareholders at the forthcoming annual general meeting of the Company ("AGM").

The declared final dividend for the year ended 31 December 2016 of HK$77,115,600 (HK$0.03 per Share) was paid on 5 June 2017.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The AGM is scheduled to be held on Friday, 18 May 2018. The Company's register of members will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, both days inclusive, for the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 14 May 2018.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The Company's register of members will be closed from Friday, 25 May 2018 to Tuesday, 29 May 2018, both days inclusive, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend of HK$0.03 per Share for the year ended 31 December 2017, if approved at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 24 May 2018. The proposed final dividend will be paid to Shareholders whose names appear on the register of members of the Company at 4:30 p.m. on Thursday, 24 May 2018.

FIVE-YEAR SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last five financial years is as follows:

Results

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**21,024,255**	19,063,248	19,839,112	17,558,794	18,343,541
Cost of sales	**(20,255,406)**	(18,306,118)	(19,030,068)	(16,796,745)	(17,566,550)
Gross profit	**768,849**	757,130	809,044	762,049	776,991
Other income	**27,100**	28,452	20,566	27,166	35,634
Distribution and selling expenses	**(285,494)**	(298,938)	(335,515)	(300,995)	(306,246)
Administrative expenses	**(142,145)**	(135,461)	(171,345)	(148,460)	(141,894)
Finance costs	**(40,224)**	(41,017)	(52,428)	(62,302)	(108,314)
Profit before tax	**328,086**	310,166	270,322	277,458	256,171
Income tax expenses	**(83,560)**	(85,402)	(71,605)	(80,352)	(58,673)
Profit for the year from continuing operations	**244,526**	224,764	198,717	197,106	197,498
Profit (Loss) for the year from discontinued operation	**–**	8,007	(66,968)	(3,810)	–
Profit for the year	**244,526**	232,771	131,749	193,296	197,498
Profit for the year attributed to:					
Owner of the Company	**244,526**	232,771	131,749	185,110	178,090
Non-controlling interests	**–**	–	–	8,186	19,408
	244,526	232,771	131,749	193,296	197,498

REPORT OF THE DIRECTORS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year	**244,526**	232,771	131,749	193,296	197,498
Other comprehensive income (expense)					
Items that will not be reclassified to profit or loss:					
Exchange difference arising from translation of consolidated financial statements to presentation currency	**116,550**	–	–	–	–
Items that may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign operations	**–**	(98,397)	(74,801)	(7,510)	19,901
Other comprehensive income (expense) for the year	**111,650**	(98,397)	(74,801)	(7,510)	19,901
Total comprehensive (expense) income for the year	**356,176**	134,374	56,948	185,786	217,399
Total comprehensive income attributable to:					
Owners of the Company	**356,176**	134,374	56,948	177,965	196,001
Non-controlling interests	**–**	–	–	7,821	21,398
	356,176	134,374	56,948	185,786	217,399

Assets and Liabilities

	31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**4,699,643**	3,810,933	4,176,364	4,504,684	4,453,309
Total liabilities	**(3,063,398)**	(2,453,748)	(2,902,143)	(3,236,001)	(3,370,412)
Total equity	**1,636,245**	1,357,185	1,274,221	1,268,683	1,082,897

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in Notes 25 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, throughout the year ended 31 December 2017 and as at the latest practicable date prior to the issue of this report, the Company maintained a sufficient public float of more than 25% in the issued share capital of the Company pursuant to the GEM Listing Rules.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company had several reserve accounts available for distribution, in the amount of approximately HK$957.29 million, which may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2017, sales to the Group's five largest customers accounted for approximately 15.14% of the total sales for the year and sales to the largest customer included therein amounted to approximately 9.28%. Purchases from the Group's five largest suppliers accounted for approximately 50.37% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 18.33%.

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

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31 December 2017.

DIRECTORS

The Directors during the year were:

Executive directors:

Mr. ZHAO Yong
Mr. ZHU Jianqiu
Mr. YU Xiao (resigned on 4 May 2017)
Mr. WU Xiangtao (resigned on 4 May 2017)
Mr. LI Jin (appointed on 4 May 2017)
Mr. YANG Jun (appointed on 4 May 2017)
Ms. SHI Ping

Independent non-executive directors:

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

In accordance with clause 84 of the Bye-laws, Mr. LI Jin, Mr. YANG Jun and Mr. Robert IP Chun Chung will retire and, being eligible, will offer themselves for re-election at the AGM.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical Details of the Directors and the senior management of the Group are set out on pages 5 to 8 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DONATION

No charitable and other donations was made by the Group during the year ended 31 December 2017 (2016: Nil).

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2017.

PERMITTED INDEMNITY AND INSURANCE PROVISIONS

The Bye-laws provide that every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the course of the financial year ended 31 December 2017 and remained in force as of the date of this report. The Company has also arranged appropriate directors' and officers' liability insurance in respect of legal action against Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

DIRECTORS' INTERESTS IN TRANSANCTIONS, ARRANGEMENTS AND CONTRACTS OF SIGINIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year ended 31 December 2017.

INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Note:

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

Save as disclosed in this paragraph, as at 31 December 2017, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2017 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 31 December 2017, the persons or companies (not being a Director or chief executive of the Company) whose interests in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed or were notified to the Company and the Stock Exchange pursuant to the positions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Name of substantial Shareholder	Capacity	Class of Shares	Number of Shares held	Approximate percentage of interest in relevant class of Shares *(Note a)* %
Sichuan Changhong Electric Co, Limited ("Sichuan Changhong")	Interest of controlled corporation and beneficial owner	Ordinary Preference	1,008,368,000 (L) *(Note b)* 1,115,868,000 (L) *(Note c)*	69.32 100.00
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary Preference	913,000,000 (L) *(Note d)* 1,115,868,000 (L) *(Note c)*	62.76 100.00
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary Preference	897,000,000 (L) 1,115,868,000 (L)	61.66 100.00

REPORT OF THE DIRECTORS

Name of substantial Shareholder	Capacity	Class of Shares	Number of Shares held	Approximate percentage of interest in relevant class of Shares *(Note a)* %
Sichuan Investment Management Company Limited ("Sichuan Investment Management") *(Note e)*	Beneficial owner	Ordinary	83,009,340 (L)	5.70
Sichuan Provisional Investment Group Company Limited ("Sichuan Investment") *(Note e)*	Interest of controlled corporation	Ordinary	83,009,340 (L)	5.70
Typical Faith Limited *(Note f)*	Beneficial owner	Ordinary	82,415,762 (L)	5.67

Notes:

(a) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 31 December 2017, which were 1,454,652,000 and 1,115,868,000, respectively.

(b) Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong and 897,000,000 Shares were held through Fit Generation, which is wholly-owned by Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO.

(c) 1,115,868,000 preference shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong, which is a wholly-owned subsidiary of Sichuan Changhong. Each of Sichuan Changhong and Changhong Hong Kong is therefore deemed to be interested in the preference shares of the Company held by Fit Generation for the purpose of the SFO.

(d) Of the 913,000,000 Shares held by Changhong Hong Kong, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Kong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.

(e) Sichuan Investment Management is wholly-owned by Sichuan Investment Group, which is deemed to be interested in the Shares held by Sichuan Investment Management for the purpose of the SFO.

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

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTOR'S INTEREST IN A COMPETING BUSINESS

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

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

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

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

INVESTOR RELATIONS

Constitutional documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2017.

CONTINUING CONNECTED TRANSACTIONS

During the year 2017, the following continuing connected transactions were carried out by the Group.

(a) Master Supply Agreement

On 14 December 2016, the Company entered into a framework agreement (the "2017 Master Supply Agreement") with Sichuan Changhong Holding in relation to the supply of IT products such as servers, notebooks, storage devices and network equipment (the "Supply Products") to Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2017 to 31 December 2017 (both days inclusive). In accordance with the 2017 Master Supply Agreement, the Group and the Sichuan Changhong Electric Group entered into individual orders setting out specific terms of each individual purchase of the Supply Products during the year ended 31 December 2017. Pursuant to the 2017 Master Supply Agreement, (i) the price and terms of the individual orders in respect of the supply of the Supply Products by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the Group than those provided to independent third party customers; and (ii) payment shall be made by the Sichuan Changhong Electric Group, for project business, in accordance with the payment terms under individual order with reference to the timing of the project business; and for any other trading business, within normal credit period upon the date of invoice. For the year ended 31 December 2017, the transaction amount under the 2017 Master Supply Agreement is subject to a cap of RMB60 million (2016: RMB65 million). As Sichuan Changhong Holding owns approximately 23.22% equity interest in Sichuan Changhong, a controlling Shareholder, and has control over Sichuan Changhong, both Sichuan Changhong and Sichuan Changhong Holding are controlling Shareholders and hence Sichuan Changhong Holding is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the 2017 Master Supply Agreement constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual cap in respect of the annual transaction amount under the 2017 Master Supply Agreement was more than 0.1% but less than 5%, the transactions under the 2017 Master Supply Agreement were exempt from independent Shareholders' approval requirements but were subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

The Directors were of the view that the entering into of the 2017 Master Supply Agreement by the Company would continue to capitalize on the stable and well-established strategic business relationship with the Sichuan Changhong Electric Group and in turn ensure a stable income source with a committed source of purchase orders from the Sichuan Changhong Electric Group, which in turn would benefit the Group's revenue growth and future development. For details of the 2017 Master Supply Agreement, please refer to the announcement of the Company dated 14 December 2017.

For the year ended 31 December 2017, the sale made under the 2017 Master Supply Agreement amounted to RMB15.93 million (2016: approximately RMB56.92 million) in total. The 2017 Master Supply Agreement expired. On 27 November 2017, the Company entered into a framework agreement (the "2018 Master Supply Agreement") with Sichuan Changhong Holding, pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2018 to 31 December 2018 (both days inclusive). The transaction amount under the 2018 Master Supply Agreement shall not exceed RMB49 million. For details of the 2018 Master Supply Agreement, please refer to the announcement of the Company dated 27 November 2017.

(b) Master Purchase Agreement

On 14 December 2016, the Company entered into a framework agreement (the "2017 Master Purchase Agreement") with Sichuan Changhong Holding, in relation to the purchase of software, services and other ancillary products (the "Purchase Products") from the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2017 to 31 December 2017 (both days inclusive). In accordance with the 2017 Master Purchase Agreement, the Group and the Sichuan Changhong Electric Group entered into individual orders setting out specific terms of each individual purchase of the Purchase Products during the year ended 31 December 2017. Pursuant to the 2017 Master Purchase Agreement, (i) the price and terms of the individual order in respect of the purchase of the Purchase Products shall be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party suppliers and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers; and (ii) payment shall be made by the Company, for project business, in accordance with the payment terms under individual order with reference to the timing of the project business; and for any other trading business, within normal credit period upon the date of invoice. For the year ended 31 December 2017, the transactions amount under the 2017 Master Purchase Agreement was subject to a cap of RMB5.25 million (2016: RMB5 million) under the 2017 Master. As disclosed above, Sichuan Changhong Holding is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the 2017 Master Purchase Agreement constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual cap in respect of the annual transaction amount under the 2017 Master Purchase Agreement was more than 0.1% but less than 5%, the transactions under the 2017 Master Purchase Agreement were exempt from independent Shareholders' approval requirements but were subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

The Directors were of the view that the entering into of the 2017 Master Purchase Agreement by the Company would enhance the diversification of products to be supplied to the Group. Taking into consideration that the Group has a stable and well-established strategic business relationship with the Sichuan Changhong Electric Group, Sichuan Changhong Electric has a deep understanding as to the specifications of the products required by the Group, the entering of the 2017 Master Purchase Agreement would support the stable growth and expansion of the business of the Group, which in turn would benefit the Group's revenue growth and future development. For details of the 2017 Master Purchase Agreement, please refer to the announcement of the Company dated 14 December 2016.

For the year ended 31 December 2017, the purchase made under the 2017 Master Purchase Agreement amounted to RMB287,228 (2016: RMB358,491) in total. The 2017 Master Purchase Agreement expired on 31 December 2017. On 27 November 2017, the Company entered into a framework agreement (the "2018 Master Purchase Agreement") with Sichuan Changhong Holding, pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2018 to 31 December 2018 (both days inclusive). The transaction amount under the 2018 Master Purchase Agreement shall not exceed RMB49 million. For details of the 2018 Master Purchase Agreement, please refer to the announcement of the Company dated 27 November 2017.

(c) Financial Services Agreement

On 26 March 2015, Changhong IT Information Products Co., Ltd (Chinese name) ("CHIT") (a subsidiary of the Company) entered into a financial services agreement (the "2015 Financial Services Agreement") with Sichuan Changhong Group Finance Company, Limited (Chinese name) ("Changhong Finance"), pursuant to which Changhong Finance agreed to provide financial services including (1) deposit services; (2) loan services; and (3) settlement services (collectively, the "Financial Services") to CHIT.

The 2015 Financial Services Agreement has a fixed term from 26 March 2015 and ending on 31 December 2017 (both dates inclusive). Pursuant to the 2015 Financial Services Agreement, (i) in relation to the deposit services, the interest rate applicable to any deposits made available to Changhong Finance will be determined in the ordinary course of business and shall not be less than (a) the minimum interest rate prescribed by the People's Bank of China ("PBOC") at such relevant time, and (b) the interest rate available to CHIT from other major commercial banks in the PRC independent to CHIT in respect of the same type of deposits; (ii) in relation to the loan services, the interest rate of the loans to be granted by Changhong Finance to CHIT will be determined in the ordinary course of business and shall not be higher than (a) the maximum interest rate prescribed by PBOC at such relevant time; and (b) the interest rate charged against CHIT by other major commercial banks in the PRC independent to CHIT in respect of the same type of loans; and (iii) in relation to the settlement services to CHIT, the settlement service fees to be charged by Changhong Finance will be determined in the ordinary course of business and shall not exceed the fees charged by other settlement services providers independent to CHIT in respect of the same type of settlement services.

As the deposit interest rates and the lending rates offered by Changhong Finance to CHIT would be equal to or more favorable to CHIT than those offered by independent commercial banks in the PRC to CHIT for comparable deposits or, as the case may be, loans, the Financial Services Agreement is therefore expected not only to provide CHIT with new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. CHIT is also expected to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk. For details of the Financial Services Agreement, please refer to the announcement of the Company dated 26 March 2015 and the circular of the Company dated 28 April 2015.

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Holding, a company which holds approximately 23.22% of the equity interest of Sichuan Changhong. Accordingly, Changhong Finance is an associate of a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules, and accordingly the transactions contemplated under the 2015 Financial Services Agreement constitute continuing connected transactions of the Company for the purpose of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual caps in respect of the deposit services under the 2015 Financial Services Agreement exceeds 5% on an annual basis, the deposit services under the 2015 Financial Services Agreement and the annual caps constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The loan services under the 2015 Financial Services Agreement constitute financial assistance provided by a connected person. As such loan services would be provided on normal commercial terms or on terms which shall be more favorable to Changhong IT and would not be secured by the assets of the Group, the loan services under the 2015 Financial Services Agreement are exempt from announcement, reporting, annual review and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As the highest of the applicable percentage ratios of the proposed annual caps in respect of the settlement services under the Financial Services Agreement is less than 5%, such settlement services are exempt from circular and independent Shareholders' approval requirements but are subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

The 2015 Financial Services Agreement and the transactions contemplated thereunder, together with the annual caps (being the maximum daily outstanding balance of deposit, loan and settlement services to be placed by CHIT and its subsidiaries with Changhong Finance under the Financial Services Agreement), for the three years ending 31 December 2015, 2016 and 2017 were approved by the independent Shareholders at the special general meeting of the Company held on 15 May 2015.

For the year ended 31 December 2017, the Financial Services were subject to the annual caps and the actual transaction amounts for each of the Financial Services are as follows:

	Deposit service – Maximum daily outstanding balance of deposits to be deposited by CHIT with Changhong Finance *(RMB'000 per day)*	**Loan service – Maximum daily outstanding balance of loans to be granted by Changhong Finance to CHIT** *(RMB'000)*	**Settlement service – Maximum service fees for the settlement services to be provided by Changhong Finance to CHIT** *(RMB'000)*
Annual cap for the year ended 31 December 2017	800,000	800,000	5,000
Actual transaction amount for the year ended 31 December 2017	242,605	140,347	25

The 2015 Financial Services Agreement expired on 31 December 2017. On 27 November 2017, Changhong IT and Changhong Finance entered into the 2018 Financial Services Agreement, pursuant to which Changhong Finance agreed to provide the Financial Services to Changhong IT in accordance with the terms and conditions of the 2018 Financial Services Agreement. The 2018 Financial Services Agreement and the transactions contemplated thereunder, together with the annual caps (being the maximum daily outstanding balance of deposit, loan and settlement services to be placed by CHIT and its subsidiaries with Changhong Finance under the Financial Services Agreement), for the three years ending 31 December 2018, 2019 and 2020 were approved by the independent Shareholders at the special general meeting of the Company held on 29 December 2017. For details of the 2018 Financial Services Agreement, please refer to the announcement of the Company dated 27 November 2017, 9 November 2017, 29 December 2017 and the circular of the Company dated 12 December 2017.

(d) House Leases

On 4 May 2017 (after trading hours), the Group entered into the following Leases: 1) Changhong IT entered into the Changhong IT Lease with Beijing Changhong Technology Company Limited*（北京長虹科技有限責任公司）(“Beijing Changhong”) in relation to the leasing of certain premises in Beijing, which will be used by Changhong IT as its office; Changhong IT Chengdu, a branch office of Changhong IT, entered into the Changhong IT Chengdu Lease with Chengdu Changhong Electronic Technology Company Limited*（成都長虹電子科技有限責任公司）(“Chengdu Changhong”）in relation to the leasing of certain premises in Chengdu, which will be used by Changhong IT Chengdu as its office; and 3) Changhong IT Intelligence entered into the Changhong IT Intelligence Lease with Chengdu Changhong in relation to the leasing of certain premises in Chengdu, which will be used by Changhong IT Intelligence as its office.

Beijing Changhong and Chengdu Changhong are owned as to 48.98% and 99.95%, respectively, by Sichuan Changhong, a controlling shareholder of the Company. Hence, each of Beijing Changhong and Chengdu Changhong is an associate of Sichuan Changhong and a connected person of the Company. Accordingly, the entering into of the Leases constitutes continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

Pursuant to Rule 20.79 of the GEM Listing Rules, the proposed annual caps of the continuing connected transactions contemplated under the Leases will be aggregated for the purpose of calculating the percentage ratios. As one or more of the applicable percentage ratios in respect of the proposed annual caps in respect of the annual transaction amount under the Leases (on an aggregated basis) are more than 0.1% and less than 5%, the entering into of the Leases is exempted from the circular (including independent financial advice) and Shareholders' approval requirements, but are subject to announcement, annual reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

The Directors are of the view that it is in the interest of the Company to enter into the Leases in order to provide the Group with stable and necessary office premises for its business operation.

The Directors are of the view that the Leases and the transactions contemplated thereunder (including the proposed annual caps) were entered into on normal commercial terms in the ordinary and usual course of business of the Company after arm's length negotiations, and the terms of the Leases and the transactions contemplated thereunder are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

For the year ended 31 December 2017, the Leases were subject to the annual caps and the actual transaction amounts for each of the lease are as follows:

	Changhong IT Lease – period from 1 June 2017 to 31 December 2017 *(RMB'000)*	**Changhong IT Chengdu Lease – period from 1 July 2017 to 31 December 2017** *(RMB'000)*	**Changhong IT Intelligence Lease – period from 1 July 2017 to 31 December 2017** *(RMB'000)*
Annual cap for the year ended 31 December 2017	2,933	250	436
Actual transaction amount for the year ended 31 December 2017	2,794	238	416

Confirmation of Independent Non-executive Directors

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

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

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

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

Confirmation from Auditor of the Company

The Board has received a confirmation from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year ended 31 December 2017, the above continuing connected transactions:

a. nothing has come to the auditor's attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

c. nothing has come to the auditor's attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to the auditor's attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

The related party transactions during the year ended 31 December 2017 as disclosed in note 36 to the consolidated financial statements in this Annual Report fall under the definition of "connected transactions" under the GEM Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 20 of the GEM Listing Rules.

AUDITOR

The financial statements of the Group for the year ended 31 December 2017 were audited by Deloitte Touche Tohmatsu who shall retire and, being eligible, offer themselves for re-appointment at the AGM.

For and on behalf of the Board

ZHAO Yong
Chairman

Hong Kong
23 March 2018

Deloitte. 德勤

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

QUALIFIED OPINION

We have audited the consolidated financial statements of Changhong Jiahua Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 63 to 148, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, 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 Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

On 21 December 2016, the Group disposed of the entire equity interest in a wholly owned subsidiary, Changhong Overseas Development Limited ("CHOD"), to an independent third party. The books and accounting records of CHOD were found to be incomplete as at 1 January 2016, and we were unable to obtain sufficient appropriate audit evidence about the gain on disposal of CHOD of approximately HK$7,542,000 and the profit for the year from discontinued operation of approximately HK$465,000 for the year ended 31 December 2016 included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and the related disclosures. This caused us to qualify our audit opinion on the consolidated financial statements in respect of the year ended 31 December 2016. Any adjustments found to be necessary would affect the Group's profits and cash flows for the year ended 31 December 2016.

INDEPENDENT AUDITOR'S REPORT

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the 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 the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified valuation of the inventories as a key audit matter due to the significance of the amount to the consolidated financial statements and the low gross profit margin of the Group's products. The inventories mainly represent electronic products for which the product life cycle is relatively short and gross profit margin is relatively low. In addition, significant management estimates and judgements are involved in determining the net realisable value of the inventories. As disclosed in Notes 5 and 21 to the consolidated financial statements, allowance for inventories of approximately HK$3,634,000 has been recognised during the year ended 31 December 2017 and the carrying value of inventories was approximately HK$1,976,801,000 (net of allowance for inventories of approximately HK$24,468,000) as at 31 December 2017, which represents 42% of the total assets of the Group. The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that are no longer saleable in the market and estimated the net realisable value for those items based primarily on the latest invoice prices and current market conditions.	Our procedures in relation to the valuation of the inventories included: • Understanding the relevant internal control procedures regarding obsolete/damaged stocks, inventory costs and inventory counts that are periodically performed by the management; • Performing physical observation of the inventories as at year end to identify inventories that may be required to be included in the assessment of the allowance for inventories; • Testing the cost of inventories, on a sample basis, against source documents; • Obtaining the inventory aging report to identify long aged inventories and assessing whether allowance for inventories was properly provided for; and • Comparing the costs of long aged inventories with subsequent sales invoices on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
We identified the recoverability of trade receivables as a key audit matter due to the significance of the amount to the consolidated financial statements and the significant judgment involved in determining the allowance for doubtful debts. As disclosed in Notes 5 and 19 to the consolidated financial statements, impairment loss on trade receivables of approximately HK$18,365,000 has been recognised during the year ended 31 December 2017 and the carrying amount of the Group's trade receivables was approximately HK$1,329,885,000 (net of allowance for doubtful debts of approximately HK$80,994,000). The Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.	Our procedures in relation to the recoverability of trade receivables included: • Understanding the key control relating to the preparation of aging report of trade receivables; • Obtaining the aging report of trade receivables to identify long aged balance and testing the aging report of the trade receivables, on a sample basis, to the source documents; • Obtaining an understanding of the management's bases and assessment in relation to the recoverability of the trade receivables and evaluating the management's assessment by taking into account of the relevant factors such as financial information of individual debtors; • Testing settlements received in respect of the trade receivables subsequent to the period end, on a sample basis, against source documents; and • Performing company and litigation searches in respect of debtors with material overdue balances to identify any additional indicators on financial difficulties.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

Those charged with governance are 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 Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance 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 those charged with governance, 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 the independent auditor's report is Tsang Kai Tai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTE	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue	6	**21,024,255**	19,063,248
Cost of sales		**(20,255,406)**	(18,306,118)
Gross profit		**768,849**	757,130
Other income	8	**27,100**	28,452
Distribution and selling expenses		**(285,494)**	(284,624)
Research and development expenses		**(8,842)**	(14,314)
Administrative expenses		**(116,191)**	(114,679)
Finance costs	9	**(40,224)**	(41,017)
Bad debts and impairment loss on trade receivables, net		**(18,365)**	(14,344)
Exchange gain (loss), net		**1,253**	(6,438)
Profit before tax		**328,086**	310,166
Income tax expenses	10	**(83,560)**	(85,402)
Profit for the year from continuing operations	12	**244,526**	224,764
Discontinued operation			
Profit for the year from discontinued operation	11	**–**	8,007
Profit for the year		**244,526**	232,771
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Exchange differences arising from translation of consolidated financial statements to presentation currency		**111,650**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**–**	(98,397)
Total comprehensive income for the year		**356,176**	134,374

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTE	**2017** **HK$'000**	2016 HK$'000
Profit for the year attributable to owners of the Company:			
– from continuing operations		**356,176**	224,764
– from discontinued operation		**–**	8,007
		356,176	232,771
Total comprehensive income for the year attributable to owners of the Company:			
– from continuing operations		**356,176**	126,367
– from discontinued operation		**–**	8,007
		356,176	134,374
Earnings per share	15		
From continuing and discontinued operations			
Basic and diluted (HK cents)		**9.51**	9.06
From continuing operations			
Basic and diluted (HK cents)		**9.51**	8.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Plant and equipment	16	**29,255**	30,350
Intangible assets	17	**34,515**	–
Available-for-sale investment	18	**21,384**	9,223
		85,154	39,573
Current assets			
Inventories	21	**1,976,801**	1,318,904
Trade and bills receivables	19	**1,494,684**	1,400,826
Prepayments, deposits and other receivables	20	**63,006**	51,171
Amounts due from related companies	36(b)	**7,163**	17,930
Trade deposits paid		**475,190**	675,125
Pledged bank deposits	22	**130,400**	54,122
Bank balances and cash	22	**467,245**	253,282
		4,614,489	3,771,360
Current liabilities			
Trade and bills payables	23	**2,043,973**	1,607,015
Other payables	24	**258,734**	238,110
Tax payables		**6,109**	23,830
Borrowings	27	**459,821**	315,073
Amounts due to related companies	36(b)	**6,778**	13,912
Customer deposits		**284,694**	249,524
		3,060,109	2,447,464
Net current assets		**1,554,380**	1,323,896
Total assets less current liabilities		**1,639,534**	1,363,469

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current liability			
Government grants	29	**3,289**	6,284
Net assets		**1,636,245**	1,357,185
Capital and reserves			
Share capital	25	**36,366**	36,366
Convertible preference shares	25	**27,897**	27,897
Reserves		**1,571,982**	1,292,922
Total equity		**1,636,245**	1,357,185

The consolidated financial statements on pages 63 to 148 were approved and authorised for issue by the board of directors on 23 March 2018 and are signed on its behalf by:

Zhao Yong
DIRECTOR

Zhu Jianqiu
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Convertible preference share	Statutory reserve	Merger reserve	Translation reserve	Other reserve	Contributed surplus	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note i)	(Note ii)		(Note iii)	(Note iv)		
1 January 2016	36,366	27,897	49,535	(1,248,106)	(37,071)	(203,432)	2,043,641	605,391	1,274,221
Profit for the year	–	–	–	–	–	–	–	232,771	232,771
Exchange differences arising from translation of foreign operations	–	–	–	–	(98,397)	–	–	–	(98,397)
Total comprehensive (expenses) income for the year	–	–	–	–	(98,397)	–	–	232,771	134,374
Appropriation to statutory reserve	–	–	7,185	–	–	–	–	(7,185)	–
Dividends recognised as distribution *(Note 14)*	–	–	–	–	–	–	(51,410)	–	(51,410)
At 31 December 2016 and 1 January 2017	**36,366**	**27,897**	**56,720**	**(1,248,106)**	**(135,468)**	**(203,432)**	**1,992,231**	**830,977**	**1,357,185**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**244,526**	**244,526**
Exchange differences arising from translation of consolidated financial statements to presentation currency	**–**	**–**	**–**	**–**	**111,650**	**–**	**–**	**–**	**111,650**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**111,650**	**–**	**–**	**244,526**	**356,176**
Appropriation to statutory reserve	**–**	**–**	**8,582**	**–**	**–**	**–**	**–**	**(8,582)**	**–**
Dividends recognised as distribution *(Note 14)*	**–**	**–**	**–**	**–**	**–**	**–**	**(77,116)**	**–**	**(77,116)**
At 31 December 2017	**36,366**	**27,897**	**65,302**	**(1,248,106)**	**(23,818)**	**(203,432)**	**1,915,115**	**1,066,921**	**1,636,245**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Notes:

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

(ii) The merger reserve represents the difference between the considerations and the assets and liabilities acquired under business combinations under common control.

(iii) The other reserve represents the difference between the consideration paid and the carrying values of non-controlling interests acquired during the year ended 31 December 2014.

(iv) On 15 May 2015, a resolution was passed on the annual general meeting to approve the reduction of the amount of approximately HK$2,095,051,000 standing to the credit of the share premium account of the Company and the transfer of the entire amount to the contributed surplus account of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITY		
Profit before tax from continuing and discontinued operations	**328,086**	318,173
Adjustments for:		
Depreciation for plant and equipment	**5,437**	7,172
Amortisation of intangible assets	**306**	–
Finance costs	**40,224**	41,019
Gain on disposal of plant and equipment	**(19)**	(5)
Gain on disposal of a subsidiary	**–**	(7,542)
Bank interest income	**(5,310)**	(2,513)
Government grants	**(17,597)**	(23,845)
Allowance for inventories	**3,634**	2,165
Impairment loss on trade receivables, net	**18,365**	12,854
Bad debts directly written off	**–**	1,517
Reversal of allowance for inventories	**(45)**	(3,592)
Waive of customer deposits	**(2,450)**	–
Waive of trade payables	**–**	(31)
Reversal of provisions	**–**	(3,043)
Operating cash flows before movements in working capital	**370,631**	342,329
(Increase) decrease in inventories	**(544,759)**	41,859
Increase in trade and bills receivables	**(1,279,017)**	(667,061)
Decrease in trade deposits paid	**238,945**	54,172
Increase in prepayments, deposits and other receivables	**(7,941)**	(26,842)
Increase (decrease) in trade and bills payables	**309,945**	(266,564)
Increase in other payables	**15,800**	115,709
Increase in customer deposits	**19,568**	72,184
Receipt of government grants	**15,380**	10,085
Cash used in operations	**(861,448)**	(324,129)
The PRC tax paid	**(105,861)**	(66,142)
Hong Kong Profits Tax paid	**–**	(1,686)
NET CASH USED IN OPERATING ACTIVITIES	**(967,309)**	(391,957)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Placement of pledged bank deposits		**(336,574)**	(239,020)
Purchase of plant and equipment		**(2,376)**	(15,143)
Development cost paid		**(33,660)**	–
Net cash outflow from disposal of a subsidiary	11	**–**	(2)
Investment in available-for-sale investment		**(11,127)**	–
Withdrawal of pledged bank deposits		**261,425**	288,439
Receipt of government grants related to plant and equipment		**–**	4,143
Interest received		**5,310**	2,513
Proceeds from disposal of plant and equipment		**45**	1,714
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(116,957)**	42,644
FINANCING ACTIVITIES			
Repayments of bank borrowings		**(1,711,731)**	(1,626,276)
Dividend paid		**(77,116)**	(51,410)
Interest paid		**(17,978)**	(34,874)
Guarantee fee paid		**(6,465)**	(6,145)
New bank borrowings raised		**1,786,534**	1,557,580
Advances on discounted bills		**1,254,716**	744,528
Loan from a fellow subsidiary		**47,853**	–
Repayment of loan from a fellow subsidiary		**–**	(118,364)
NET CASH FROM FINANCING ACTIVITIES		**1,275,813**	465,039
NET INCREASE IN CASH AND CASH EQUIVALENTS		**191,547**	115,726
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**253,282**	151,661
Effect of foreign exchange rate changes		**22,416**	(14,105)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**467,245**	253,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

The Company's shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Unit 1412, 14/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries (together with the Company collectively the "Group") are set out in Note 37.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). As the Company is a public company with its shares listed on the Stock Exchange with most of its investors located in Hong Kong, the directors of the Company consider that HK$ is preferable in presenting the operating result and financial position of the Group.

Sichuan Changhong Electronic Co., Limited ("Sichuan Changhong"), a company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange, has obtained the control over the board of directors of the Company since 2012. In the opinion of the directors of the Company, the immediate and ultimate holding company of the Company is Sichuan Changhong as at 31 December 2017.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Change of functional currency

Subsequent to the completion of disposal of Changhong Overseas Development Limited ("CHOD"), an indirect wholly owned subsidiary of the Company, on 21 December 2016 as details set out in Note 11, the directors of the Company re-assessed the functional currency of the Company and considered the Company's major assets and its respective risks and rewards are primarily located in the PRC. As a result, the directors of the Company determined to change the functional currency from the United States dollars ("USD") to Renminbi ("RMB") with effect from 21 December 2016. The change of functional currency is applied prospectively from the date of change in accordance with Hong Kong Accounting Standard ("HKAS") 21 The Effect of Changes in Foreign Exchange Rates.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 35. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 35, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

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 a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

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

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are related to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 9 Financial instruments *(Continued)*

Based on the Group's financial instruments and risk management polices as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

Equity security classified as available-for-sale investment carried at cost less impairment as disclosed in Note 18 is qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these security at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the fair value change relating to these securities would be adjusted to investments revaluation reserve as at 1 January 2018.

All other financial assets and financial liabilities will continue to be measured on the same basis as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model was to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings at 1 January 2018.

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

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

HKFRS 16 Leases *(Continued)*

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$27,562,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of HK$885,000 and as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the underlying assets accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except for described as above, the directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material effect on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

Merger accounting for business combination involving businesses under common control

Applying merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations

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

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sales of good is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

Interest income is accrued on a time apportionment 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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefit will flow to the Group and the amount of income can be measured reliably).

Leasing

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

The Group as lessee

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants *(Continued)*

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as expenses when employees have rendered service, entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefits in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment

Plant and equipment held for use in the production or supply of goods or services, or for administrative purposes 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 write off the costs of assets 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 the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 losses. 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure (Continued)

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment 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 relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an asset individually, 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 (or a cash-generating unit) 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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 an impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

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

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

Financial assets

Financial assets are classified into loans and receivables and available-for-sale investment. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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 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.

Available-for-sale financial asset

Available-for-sale financial asset is non-derivative that is either designated as available-for-sale or is not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated the equity investment in Sichuan Hongyun New Generation of IT Venture Capital Fund as available-for-sale financial asset on initial recognition.

Available-for-sale equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each 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 available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other 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 and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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 credit period ranging from 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade 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 is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

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.

Equity instruments

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

4. 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 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.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables, amounts due to related companies, customer deposits and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets and liabilities that are not readily apparent from other resources. 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.

Key sources of estimation uncertainty

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

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that there are no longer saleable in the market and estimated the net realisable value for those items based primarily on the latest invoice prices and current market conditions. Allowance for inventories of approximately HK$3,634,000 (2016: HK$2,165,000) has been recognised during the year ended 31 December 2017. As at 31 December 2017, the carrying amount of inventories was approximately HK$1,976,801,000 (2016: HK$1,318,904,000) (net of allowance for inventories of approximately HK$24,468,000 (2016: HK$19,395,000)).

Estimated impairment of trade receivables

The management regularly reviews the recoverability and age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated statement of profit or loss and other comprehensive income when there is an objective evidence that the asset is impaired.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of trade receivables (Continued)

In determining whether impairment of bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive, discounted using the original effective interest rate, and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. Bad debts and impairment loss on trade receivables of approximately HK$18,365,000 (2016: HK$14,371,000) has been recognised during the year ended 31 December 2017. As at 31 December 2017, the carrying amount of trade receivables was approximately HK$1,329,885,000 (net of allowance for doubtful debts of approximately HK$80,994,000) (2016: HK$1,316,123,000 (net of allowance for doubtful debts of approximately HK$60,671,000)).

6. REVENUE

Continuing operations

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

Revenue represents net amount received and receivable for the sale of different types of IT products, self-developed products, provisions of professional integrated IT solutions and services net of corresponding sales related taxes and rebate. The amounts of each significant category of revenue recognised in revenue for the year from continuing operations are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
IT Consumer Products	**10,809,340**	9,803,344
IT Corporate Products	**5,560,739**	4,972,014
Others	**4,654,176**	4,287,890
	21,024,255	19,063,248

7. SEGMENT INFORMATION

Information reported to the executive directors or the management of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

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

Continuing operations:

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

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

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

Discontinued operation:

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

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in Note 4. Segment profit represents the profit earned by each segment without allocation of other income, research and development expenses, finance costs exchange loss, net as well as unallocated head office and corporate administrative expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets do not include plant and equipment, intangible assets, prepayments, deposits and other receivables, pledged bank deposits, bank balances and cash and available-for-sale investment. Segment liabilities do not include other payables, tax payables, amounts due to related companies, government grants and borrowings.

The segment information reported does not include any amounts of the above discontinued operation, which is described in more details in Note 11.

7. SEGMENT INFORMATION *(Continued)*

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

For the year ended 31 December 2017

Continuing operations

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue				
External sales	10,809,340	5,560,739	4,654,176	21,024,255
Segment profit	194,403	256,698	13,889	464,990
Other income				27,100
Research and development expenses				(8,842)
Administrative expenses				(116,191)
Exchange gain, net				1,253
Finance costs				(40,224)
Profit before tax				328,086

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2017 *(Continued)*

Continuing operations *(Continued)*

	IT consumer products HK$'000	IT corporate products HK$'000	Others HK$'000	Total HK$'000
Segment assets	1,916,869	1,871,580	165,389	3,953,838
Unallocated assets:				
Pledged bank deposits				130,400
Bank balances and cash				467,245
Prepayments, deposits and other receivables				63,006
Plant and equipment				29,255
Intangible assets				34,515
Available-for-sale investment				21,384
Total segment and consolidated assets				4,699,643
Segment liabilities	1,097,091	1,098,099	133,477	2,328,667
Unallocated liabilities:				
Other payables				258,734
Amounts due to related companies				6,778
Government grants				3,289
Tax payables				6,109
Borrowings				459,821
Total segment and consolidated liabilities				3,063,398

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2016

Continuing operations

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue				
External sales	9,803,344	4,972,014	4,287,890	19,063,248
Segment profit	183,622	231,889	42,651	458,162
Other income				28,452
Research and development expenses				(14,314)
Administrative expenses				(114,679)
Exchange loss, net				(6,438)
Finance costs				(41,017)
Profit before tax				310,166

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2016 *(Continued)*

Continuing operations *(Continued)*

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment assets	1,668,334	1,688,388	56,063	3,412,785
Unallocated assets:				
Pledged bank deposits				54,122
Bank balances and cash				253,282
Prepayments, deposits and other receivables				51,171
Plant and equipment				30,350
Available-for-sale investment				9,223
Total segment and consolidated assets				3,810,933
Segment liabilities	921,492	914,403	20,644	1,856,539
Unallocated liabilities:				
Other payables				238,110
Amounts due to related companies				13,912
Government grants				6,284
Tax payables				23,830
Borrowings				315,073
Total segment and consolidated liabilities				2,453,748

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2017

Continuing operations

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment loss on trade receivables, net	9,498	8,267	600	–	18,365
(Reversal of allowance) allowance for inventories	(296)	(1,933)	5,818	–	3,589
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	–	–	–	8,842	8,842
Addition to non-current assets	–	–	–	47,163	47,163
Depreciation	–	–	–	5,437	5,437
Amortisation	–	–	–	306	306
Gain on disposal of plant and equipment	–	–	–	(19)	(19)
Bank interest income	–	–	–	(5,310)	(5,310)
Finance costs	–	–	–	40,224	40,224
Income tax expenses	–	–	–	83,560	83,560

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2016

Continuing operations

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Bad debts and impairment loss on trade receivables, net	7,430	5,351	1,563	–	14,344
(Reversal of allowance) allowance for inventories	(724)	2,111	(2,814)	–	(1,427)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	–	–	–	14,314	14,314
Addition to non-current assets	–	–	–	15,143	15,143
Depreciation	–	–	–	7,167	7,167
Gain on disposal of plant and equipment	–	–	–	(7)	(7)
Bank interest income	–	–	–	(2,513)	(2,513)
Finance costs	–	–	–	41,017	41,017
Income tax expenses	–	–	–	85,402	85,402

7. SEGMENT INFORMATION *(Continued)*

Geographical information

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

	2017	2016
	HK$'000	*HK$'000*
Mainland, China	**20,961,229**	19,033,712
Other regions	**63,026**	29,536
	21,024,255	19,063,248

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

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**5**	6
Mainland, China	**63,765**	30,344
	63,770	30,350

* Non-current assets excluded financial instruments.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

8. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Continuing operations		
Bank interest income	**5,310**	2,513
Government grants	**17,597**	23,845
Waive of customer deposits	**2,450**	–
Others	**1,743**	2,094
	27,100	28,452

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Continuing operations		
Interest on:		
Bank and other borrowings	**17,978**	16,603
Discounted bills with recourse	**15,781**	18,269
Guarantee fee	**6,465**	6,145
	40,224	41,017

10. INCOME TAX EXPENSES

	2017 HK$'000	2016 HK$'000
Continuing operations		
Current tax:		
Hong Kong Profits Tax		
– Provision for the year	–	623
– Overprovision in prior years	–	(20)
	–	603
The PRC Enterprise Income Tax ("EIT")		
– Provision for the year	86,521	84,674
– (Over) underprovision in prior years	(2,961)	125
	83,560	84,799
	83,560	85,402

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

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

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of Changhong IT Information Products Co., Ltd. ("CHIT"), Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital") and Beijing Changhong IT Intelligence System Co., Ltd are 25% for both years, and Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd is 25% for 2017.

10. INCOME TAX EXPENSES *(Continued)*

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

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Profit before tax	**328,086**	310,166
Tax at the domestic income tax rate of 25% (2016: 25%) (Note)	**82,022**	77,542
Tax effect of income not taxable for tax purpose	**(61)**	(401)
Tax effect of expenses not deductible for tax purpose	**4,560**	8,156
(Over) underprovision in prior years	**(2,961)**	105
Income tax expenses	**83,560**	85,402

Note: The domestic tax rate in the jurisdiction where the operations of the Group are substantially based is used.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$1,500,741,000 (2016: approximately HK$1,203,934,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

11. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2015, the Group ceased its operation in trading of consumer electronic products in Hong Kong that is classified as Consumer Electronic Products segment.

Accordingly, the operating results of the trading of consumer electronic products for the year ended 31 December 2016 in Hong Kong are presented as discontinued operation in the consolidated financial statements.

On 14 December 2016, the Group entered into a sale and purchase agreement with an independent third party under which the Group disposed of its entire equity interests in CHOD at a consideration of HK$100 (the "Disposal"). The Disposal was completed on 21 December 2016, on which the control over CHOD was passed to the acquirer.

Profit for the period of the Consumer Electronic Products segment was as follows:

	Period from 1 January 2016 to 21 December 2016 *HK$'000*
Profit for the period	465
Gain on Disposal	7,542
	8,007

11. DISPOSAL OF A SUBSIDIARY *(Continued)*

Analysis of assets and liabilities over which control was lost:

	21 December 2016 *HK$'000*
Bank balances and cash	2
Trade and bills payables	(7,845)
Provision	(713)
Other payables	(488)
Customer deposits	(498)
Net liabilities disposed of	(9,542)
Gain on disposal of CHOD:	
Consideration received	–
Less: legal and professional fees	(2,000)
Net liabilities disposed of	9,542
Gain on disposal	7,542
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(2)
	(2)

11. DISPOSAL OF A SUBSIDIARY *(Continued)*

The results of the Consumer Electronic Products segment for the period were as follows:

	Period from 1 January 2016 to 21 December 2016
	HK$'000
Revenue	371
Cost of sales	(728)
Gross loss	(357)
Other income	102
Other gains and losses	2,974
Administrative expenses	(2,252)
Finance costs	(2)
Profit before tax	465
Income tax expenses	–
Profit for the period from discontinued operation (attributed to owners of the Company)	465

11. DISPOSAL OF A SUBSIDIARY *(Continued)*

Profit for the period from discontinued operation has been arrived at after charging (crediting):

	Period from 1 January 2016 to 21 December 2016 *HK$'000*
Cost of inventories recognised as an expense	728
Staff costs	
– Salaries and related staff costs	322
– Retirement benefits scheme contributions	11
	333
Reversal of provision (Note)	(3,043)
Waive of trade payables	(31)
Loss on disposal of plant and equipment	2
Depreciation	5
Auditor's remuneration	–
Bad debts directly written off	27
Exchange loss, net	40

	Period from 1 January 2016 to 21 December 2016 *HK$'000*
Net cash used in operating activities	(3,145)
Net cash generated from investing activities	8
Net cash generated from financing activities	2,448

11. DISPOSAL OF A SUBSIDIARY *(Continued)*

Note:

On 16 June 2015, certain purported suppliers of CHOD had made visits to the office of CHOD to seek for outstanding payments resulted from misappropriation of assets by an ex-employee. Details are set out in the Company's announcements dated 19 June 2015, 20 July 2015 and 19 October 2015.

On 31 December 2015, there were certain outstanding claims from purported suppliers with total amount of approximately HK$9,407,000. In the opinion of directors of the Company, an additional provision of approximately HK$3,756,000 was made for these claims. These have been recognised in the liabilities associated with assets classified as held for sale included in the consolidated statement of financial position as at 31 December 2015.

During the year ended 31 December 2016, CHOD entered into settlement agreements with the purported suppliers in respect of their current claims. CHOD has mutually agreed with majority of these purported suppliers for the settlement amounts and the excessive provision of approximately HK$3,043,000 was subsequently reversed.

Upon the completion of the Disposal, the Company ceased to hold any interest in CHOD. CHOD had no significant impact on the Group's operating, investing and financing cash flows for the year ended 31 December 2016.

12. PROFIT FOR THE YEAR

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

	2017 HK$'000	2016 HK$'000
Depreciation for plant and equipment	**5,437**	7,167
Amortisation of intangible assets	**306**	–
Auditor's remuneration	**2,819**	2,166
Directors' emoluments	**12,998**	9,993
Cost of inventories recognised as an expense	**20,255,406**	18,306,118
Staff costs, including directors' emoluments		
– Salaries and related staff costs	**185,842**	196,275
– Retirement benefits scheme contributions	**35,910**	39,943
	221,752	236,218
Exchange (gain) loss, net	**(1,253)**	6,438
Allowance (reversal of allowance) for inventories, net (included in cost of sales)	**3,589**	(1,427)
Impairment loss on trade receivables, net	**18,365**	12,854
Bad debts directly written off	**–**	1,490
Research and development expenses (Note)	**8,842**	14,314
Gain on disposal of plant and equipment	**(19)**	(7)
Minimum lease payments in respect of rented premises	**12,558**	12,930

Note: Included in the research and development expenses, approximately HK$7,549,000 (2016: HK$10,312,000) are related to staff costs.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and senior management's emoluments

Details of emoluments paid by the Group to the directors and chief executive of the Company during the year are as follows:

For the year ended 31 December 2017

	Fees	Salaries and allowances	Retirement benefits scheme contributions	Performance related incentive payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Ms. Shi Ping	–	–	–	–	–
Mr. Zhao Yong	–	–	–	–	–
Mr. Yu Xiao (resigned on 4 May 2017)	–	–	–	–	–
Mr. Wu Xiangtao (resigned on 4 May 2017)	–	–	–	–	–
Mr. Zhu Jianqiu	–	1,177	103	10,978	12,258
Mr. Li Jin (appointed on 4 May 2017)	–	–	–	–	–
Mr. Yang Jun (appointed on 4 May 2017)	–	–	–	–	–
Sub-total	–	1,177	103	10,978	12,258
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Robert Ip Chun Chung	180	–	–	–	180
Mr. Sun Dongfeng	180	–	–	–	180
Mr. Cheng Yuk Kin	180	–	–	–	180
Sub-total	740	–	–	–	740
Total					12,998

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' and senior management's emoluments *(Continued)*

For the year ended 31 December 2016

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Performance related incentive payments *HK$'000*	Total *HK$'000*
Executive directors					
Ms. Shi Ping	–	–	–	–	–
Mr. Tang Yun (resigned on 13 April 2016)	–	–	–	–	–
Mr. Zhao Yong	–	–	–	–	–
Mr. Yu Xiao	–	–	–	–	–
Mr. Wu Xiangtao	–	–	–	–	–
Mr. Zhu Jianqiu	–	1,248	89	7,916	9,253
Sub-total	–	1,248	89	7,916	9,253
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Robert Ip Chun Chung	180	–	–	–	180
Mr. Sun Dongfeng	180	–	–	–	180
Mr. Cheng Yuk Kin	180	–	–	–	180
Sub-total	740	–	–	–	740
Total					9,993

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Mr. Zhu Jianqiu is entitled to bonus payments which are determined based on a percentage of the Group's financial performance, including revenue and profit after tax for the year.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Five highest paid individuals

Of the five individuals with the highest emoluments in this Group, one (2016: one) was a director of the Company whose emoluments are included in the disclosure as above. The emoluments of the remaining four (2016: four) individuals who are neither directors nor chief executive of the Company were as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other allowances	**12,921**	10,490
Retirement benefit scheme contributions	**347**	324
	13,268	10,814

Their emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Nil to HK$1,000,000	**–**	–
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**2**	1
HK$4,000,001 to HK$4,500,000	**–**	1
Over HK$5,000,000	**1**	–
	4	4

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors', chief executive and employee's emoluments

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. In the years ended 31 December 2017 and 2016, three directors, Mrs. Shi Ping, Mr. Zhao Yong and Mr. Zhu Jiangiu waived emoluments of HK$60,000 each (2016: HK$60,000 each). Two directors Mr. Yu Xiao and Mr. Wu Xiantao were resigned on 4 May 2017. They waived emoluments of HK$20,000 (2016: HK$60,000). Two directors, Mr. Li Jin and Mr. Yang Jun, were appointed by the Group on 4 May 2017, waived emoluments HK$40,000 (2016:Nil).

Mr. Zhu Jianqiu is also the managing director of the Company and has overall chief executive responsibility for the Group's business development and day to day management and his emoluments disclosed above include those for services rendered by him as the managing director.

14. DIVIDENDS

	2017 ***HK$'000***	2016 *HK$'000*
Dividends recognised as distribution during the year:		
2016 Final – HK3 (2016: 2015 Final – HK2) cents per share	**77,116**	51,410

The directors recommend the payment of a final dividend of HK3 cents (2016 Final: HK3 cents) per share in respect of the year ended 31 December 2017 which is subject to approval by the shareholders in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

From continuing and discontinued operations

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

For the year ended 31 December 2017	Continuing operations *HK$'000*
Earnings	
Profit for the year attributable to owners of the Company	244,526
Less: Earnings attributable to convertible preference shares	(106,149)
Earnings for the purpose of basic earnings per share	138,377
Add: Earnings attributable to convertible preference shares	106,149
Earnings for the purpose of diluted earnings per share	244,526

15. EARNINGS PER SHARE *(Continued)*

From continuing and discontinued operations *(Continued)*

For the year ended 31 December 2016	Continuing operations *HK$'000*	Discontinued operations *HK$'000*	Total *HK$'000*
Earnings			
Profit for the year attributable to owners of the Company	224,764	8,007	232,771
Less: Earnings attributable to convertible preference shares	(97,570)	(3,476)	(101,046)
Earnings for the purpose of basic earnings per share	127,194	4,531	131,725
Add: Earnings attributable to convertible preference shares	97,570	3,476	101,046
Earnings for the purpose of diluted earnings per share	224,764	8,007	232,771

Basic and diluted earnings per share for the discontinued operations in HK0.32 cents per share.

	2017 ***'000***	2016 *'000*
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,454,652**	1,454,652
Weighted average number of convertible preference shares for the purpose of diluted earnings per share	**1,115,868**	1,115,868
Weighted average number of shares for the purpose of diluted earnings per share	**2,570,520**	2,570,520

16. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1 January 2016	57,185	12,549	2,071	71,805
Additions	15,143	–	–	15,143
Disposals	(3,708)	–	–	(3,708)
Exchange realignment	(3,639)	(789)	(131)	(4,559)
At 31 December 2016 and 1 January 2017	64,981	11,760	1,940	78,681
Additions	2,376	–	–	2,376
Disposals	(850)	–	–	(850)
Exchange realignment	4,609	816	136	5,561
At 31 December 2017	71,116	12,576	2,076	85,768
DEPRECIATION				
At 1 January 2016	35,756	9,026	1,736	46,518
Charge for the year	5,439	1,395	333	7,167
Eliminated on disposals	(2,009)	–	–	(2,009)
Exchange realignment	(2,572)	(644)	(129)	(3,345)
At 31 December 2016 and 1 January 2017	36,614	9,777	1,940	48,331
Charge for the year	5,060	377	–	5,437
Eliminated on disposals	(824)	–	–	(824)
Exchange realignment	2,743	690	136	3,569
At 31 December 2017	43,593	10,844	2,076	56,513
CARRYING VALUES				
At 31 December 2017	27,523	1,732	–	29,255
At 31 December 2016	28,367	1,983	–	30,350

16. PLANT AND EQUIPMENT *(Continued)*

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

Furniture, fixtures and equipment	5 years to 10 years
Leasehold improvements	over the term of the lease ranging from 2 to 5 years
Motor vehicle	3 years

17. INTANGIBLE ASSETS

	Software *HK$'000*	Software under development *HK$'000*	Total *HK$'000*
COST			
At 1 January 2016, 31 December 2016 and 1 January 2017	–	–	–
Additions	636	33,024	33,660
Transfer	6,274	(6,274)	–
Exchange realignment	241	931	1,172
At 31 December 2017	7,151	27,681	34,832
AMORTISATION			
At 1 January 2016, 31 December 2016 and 1 January 2017	–	–	–
Charge for year	306	–	306
Exchange realignment	11	–	11
	317	–	317
CARRYING VALUES			
At 31 December 2017	6,834	27,681	34,515
At 31 December 2016	–	–	–

17. INTANGIBLE ASSETS *(Continued)*

Software under development being development cost of an one-stop internet distribution platform which provides upstream and downstream customers with industrial chain solution and assist distributors and retailers to transform towards Internet Plus, which is able to demonstrate the ability to generate future economic benefits to the Group. The group has also developed mobile location-based services products for distribution to customers

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over 10 years.

18. AVAILABLE-FOR-SALE INVESTMENT

	2017	2016
	HK$'000	*HK$'000*
Unlisted investment, at cost	**21,384**	9,223

On 11 April 2015, Changhong IT Digital, an indirect wholly-owned subsidiary of the Company, entered into contracts with an independent third parties to invest RMB27,500,000 (approximately HK$32,832,000) to establish Sichuan Hongyun New Generation of IT Venture Capital Fund* 四川虹雲新一代信息技術創業投資基金合夥企業(有限合夥)("Sichuan Hongyun"), in which Changhong IT Digital holds 11% of the total partnership interest. As at 31 December 2017, Changhong IT Digital has paid RMB17,875,000 (approximately HK$21,384,000) (2016: RMB8,250,000 (approximately HK$9,223,000)) to Sichuan Hongyun.

The available-for-sale investment is investment in unlisted equity securities issued by a private entity incorporated in the PRC. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

* English name is for identification purpose only.

19. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**1,410,879**	1,376,794
Less: Allowance for doubtful debts	**(80,994)**	(60,671)
	1,329,885	1,316,123
Bills receivables	**164,799**	84,703
Trade and bills receivables	**1,494,684**	1,400,826

The Group allows a credit period ranging from 30-180 days (2016: 30-180 days) to its third party trade customers. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Limits attributed to customers are reviewed twice a year. 74% (2016: 77%) of the trade and bills receivables are neither past due nor impaired.

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

	2017 HK$'000	2016 HK$'000
Within 30 days	**570,609**	699,957
31 – 60 days	**608,065**	403,673
61 – 90 days	**142,067**	93,879
91 – 180 days	**66,621**	59,860
181– 365 days	**56,975**	51,603
Over 1 year	**50,347**	91,854
	1,494,684	1,400,826

19. TRADE AND BILLS RECEIVABLES *(Continued)*

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of approximately HK$331,239,000 (2016: HK$278,158,000) which were past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**242,256**	155,281
30 – 60 days	**30,110**	23,243
61 – 90 days	**7,923**	17,092
91 – 180 days	**18,801**	27,186
Over 180 days	**32,149**	55,356
	331,239	278,158

Movement of allowance for doubtful debts

	2017	2016
	HK$'000	*HK$'000*
Balance at beginning of the year	**60,671**	55,414
Impairment loss on trade receivables	**18,365**	12,854
Amounts written off as uncollectible	**(2,837)**	(3,358)
Exchange realignment	**4,795**	(4,239)
Balance at the end of the year	**80,994**	60,671

Included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$80,994,000 (2016: HK$60,671,000) as at 31 December 2017, which have been in severe financial difficulties.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	**1,999**	1,976
Other tax receivable	**25,452**	10,957
Deposits	**10,317**	6,196
Other receivables	**25,238**	32,042
	63,006	51,171

Other receivables are unsecured, interest-free and recoverable within one year from the end of the reporting period.

21. INVENTORIES

	2017 HK$'000	2016 HK$'000
Trading merchandises	**1,976,801**	1,318,904

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances bear interests at floating rates based on bank deposits rates which ranged from 0.35% to 1.75% (2016: 0.35% to 1.265%) per annum.

At 31 December 2017, pledged bank deposits were pledged to secure general banking facilities granted to the Group at floating rate within ranged from 1.1% to 1.75% per annum (2016: Nil).

23. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	2017 HK$'000	2016 HK$'000
Within 30 days	1,408,780	1,280,088
31 – 60 days	444,758	250,823
61 – 90 days	60,113	21,783
91 – 180 days	64,498	20,057
181 – 365 days	49,715	14,716
Over 1 year	16,109	19,548
	2,043,973	1,607,015

The credit period on purchase of goods is ranging from 30 – 120 days (2016: 30 – 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Accruals	20,999	22,220
Provision for social insurance and housing provident (Note)	43,410	40,799
Other tax payables	102,319	105,671
Salaries payables	66,551	45,480
Interest payables	8,791	6,050
Government grant (Note 29)	1,141	–
Other payables	15,523	17,890
	258,734	238,110

24. OTHER PAYABLES *(Continued)*

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

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

As at 31 December 2017, The Group has total accumulated unpaid amount of social insurance and housing provident fund of approximately HK$43,410,000 (2016: HK$40,799,000). Provisions for the unpaid amounts had been recognised and included in other payables. As at 31 December 2017, the Group had not received any notice from the relevant housing fund or social security authorises ordering the Group to make outstanding payments or rectification, or any administrative penalties from the relevant authorities. The relevant authorities may request the Group at any time to pay up the outstanding amount of the social insurance or housing provident fund contributions and may impose a fine of up to three times of the unpaid amount of social insurance and housing provident fund on the Group if the above mentioned unpaid amounts are not settled within the time specified in the notice. The fine will be recognised in the consolidated statement of financial position if the Group does not settle the unpaid amounts within a specific time upon the request. During the years ended 31 December 2017 and 2016, no such request was received by the Group.

25. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES

	Number of shares		Share capital	
	2017	2016	**2017**	2016
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
Ordinary shares of HK$0.025 each				
At the beginning and at the end of the financial year	**5,000,000**	5,000,000	**125,000**	125,000
Convertible preference shares of HK$0.025 each				
At the beginning and at the end of the financial year	**3,000,000**	3,000,000	**75,000**	75,000

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

	Ordinary share			
	Number of shares		Share capital	
	2017	2016	**2017**	2016
	'000	*'000*	***HK$'000***	*HK$'000*
Issued and fully paid:				
At beginning and end of year	**1,454,652**	1,454,652	**36,366**	36,366

	Convertible preference share			
	Number of shares		Share capital	
	2017	2016	**2017**	2016
	'000	*'000*	***HK$'000***	*HK$'000*
At beginning and end of year	**1,115,868**	1,115,868	**27,897**	27,897

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

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

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

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

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

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

26. DEFERRED TAXATION

The Group did not have recognisable unused tax losses and other deductible temporary differences from continuing operations for both years.

27. BORROWINGS

	2017 HK$'000	2016 HK$'000
Loan from a fellow subsidiary	**47,853**	–
Bank borrowings	**411,968**	315,073
	459,821	315,073
Secured	**–**	17,703
Unsecured	**459,821**	297,370
	459,821	315,073
Carrying amount repayable*:		
Within one year	**459,821**	315,073

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The loan from a fellow subsidiary represents the advance from 四川長虹集團財務有限公司 ("長虹財務") as at 31 December 2017. The balance was unsecured, bearing interest at a fixed rate at 3.9% per annum and repayable within one year.

The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowings for the year ended 31 December 2017 is fixed from 3.9% to 5.0% (2016: 3.9% to 4.6%).

28. RETIREMENT BENEFIT SCHEME

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

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2017, contributions of the Group under the MPF Scheme amounted to approximately HK$74,000 (2016: HK$59,000).

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government (the "PRC Pension Scheme"). The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefit. The only obligation of the Group with respect to the pension scheme is to make the required contributions. For the year ended 31 December 2017, contributions of the Group under the PRC Pension Scheme amounted to approximately HK$35,836,000 (2016: HK$39,884,000).

The total cost charged to the consolidated statement of profit or loss and other comprehensive income for continuing operations of approximately HK$35,910,000 (2016: HK$39,943,000) for the year ended 31 December 2017, represent contributions payable to these schemes by the Company during the year ended 31 December 2017.

29. GOVERNMENT GRANTS

	Government grants related to assets *HK$'000* (Note a)	Government grants related to income *HK$'000* (Note b)	Total *HK$'000*
At 1 January 2016	4,725	11,585	16,310
Receipt of government grant	4,143	10,085	14,228
Receipt of other income	(2,225)	(21,620)	(23,845)
Exchange realignment	(359)	(50)	(409)
At 31 December 2016 and 1 January 2017	6,284	–	6,284
Receipt of government grant	–	15,380	15,380
Receipt of other income	(2,217)	(15,380)	(17,597)
Exchange realignment	363	–	363
At 31 December 2017	4,430	–	4,430

The movement of government grants is as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Balance as at 31 December	**4,430**	6,284
Less: amounts to be recognised as government grants within one year, classified as current liabilities	**1,141**	–
Amounts to be recognised as government grants after one year, classified as non-current liabilities	**3,289**	6,284

29. GOVERNMENT GRANTS *(Continued)*

The Group received government grants of approximately HK$15,380,000 (2016: HK$10,085,000) during the year ended 31 December 2017 towards the research and development expenditure. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to income in the current year of approximately HK$15,380,000 (2016: HK$21,620,000).

The Group received government grants of approximately HK$4,143,000 during the year ended 31 December 2016 towards the acquisition of plant and equipment. The amounts have been treated as deferred income and transferred to income over the useful lives of the related assets. This policy has resulted in a credit to income in the current year of approximately HK$2,217,000 (2016: HK$2,225,000).

30. CONTINGENT LIABILITIES

During the years ended 31 December 2017 and 2016, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable to banks for raising of cash. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable banks in the PRC. As a result, the relevant assets and liabilities were not recognised in the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of each reporting period are as follows:

	2017	2016
	HK$'000	*HK$'000*
Settlement of trade and other payables	**135,808**	20,698
Discounted bills for raising of cash	**274,380**	121,187
Outstanding endorsed and discounted bills receivable with recourse	**410,188**	141,885

The outstanding endorsed and discounted bills receivable are aged within 180 days (2016: 180 days) at the end of each reporting period.

30. CONTINGENT LIABILITIES *(Continued)*

At 31 December 2017, the Company had also given guarantees to certain suppliers in relation to the subsidiaries' settlement of the respective payables. The maximum aggregate amounts payable to these suppliers under guarantee were approximately HK$613,710,000 (2016: Nil).

31. OPERATING LEASE COMMITMENTS

The Group as lessee

	2017	2016
	HK$'000	*HK$'000*
Minimum lease payments under operating lease during the year	**12,558**	12,930

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

	2017	2016
	HK$'000	*HK$'000*
Within one year	**12,254**	7,486
In the second to fifth year, inclusive	**15,308**	3,891
	27,562	11,377

Leases are negotiated and rentals are fixed for terms of 2 to 3 years (2016: 2 to 5 years).

32. CAPITAL COMMITMENT

	2017	2016
	HK$'000	*HK$'000*
Commitment contracted but not provided for in respect of:		
– Capital contribution to available-for-sale investment	**11,515**	21,520

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

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

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	2,599,920	2,433,327
Available-for-sale investment	21,384	9,223
	2,621,304	2,442,550
Financial liabilities		
At amortised cost	2,526,095	1,953,890

Financial risk management objectives and policies

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

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 1% (2016: 1%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 99% (2016: 99%) of cost are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities other than the functional currency of the entity to which they related at the reporting date are as follows:

	Assets		Liabilities	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**483**	451	**–**	–
USD	**47,163**	62,112	**175,054**	62,145

The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Currency risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to the currencies of RMB and USD. As the USD will only vary between HK$7.75=USD1.00 and HK$7.85=USD1.00 under the Linked Exchange Rate System, the management of the Company are of the opinion that the Group's exposure to USD relative to HK$ is minimal and accordingly, sensitivity analysis below represents the exposure of RMB against USD.

The following table details the Group's sensitivity to a 10% (2016: 10%) increase and decrease in the functional currency of group entities against the relevant foreign currencies. 10% (2016: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 10% (2016: 10%) change in foreign currency rates. A positive number below indicates 10 increase in post-tax profit (2016: an increase in post-tax profit) where functional currency of group entities strengthen 10% (2016: 10%) against the relevant currency. For a 10% (2016: 10%) weakening of functional currency of group entities against the relevant currency, there would be an equal and opposite impact on the post-tax profit.

	USD Impact	
	2017	2016
	HK$'000	*HK$'000*
Profit or loss	**11,190**	2,772

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest-rate risk in relation to fixed rate loan from a fellow subsidiary and fixed rate borrowings from banks (Note 27). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate short-term bank balances and bank deposits (see Note 22 for details of these balances).

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. 100 basis points (2016: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

As at 31 December 2017, if interest rates on bank deposits had been 100 basis points (2016: 100 basis points) higher/lower and all other variables were held constant, post-tax profit for the year ended 31 December 2017 would have increased/decreased by HK$1,256,000 (2016: HK$461,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate short-term bank deposits.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the 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 of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 23% (2016: 19%) and 35% (2016: 33%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers respectively which are mainly located in the PRC.

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

Liquidity risk

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

The Group currently relies on borrowings as a significant source of liquidity. As at 31 December 2017, the Group has short-term bank loan facilities of HK$2,343,453,000 (As at 31 December 2016: HK$1,329,633,000).

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

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

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

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	Over 3 months but less than 1 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2017						
Non-derivative financial liabilities						
Trade and bills payables	–	2,043,973	–	–	2,043,973	2,043,973
Other payables	–	15,523	–	–	15,523	15,523
Amounts due to related companies	–	6,778	–	–	6,778	6,778
Borrowings	4.20	77,444	385,431	–	462,875	459,821
		2,143,718	385,431	–	2,529,149	2,526,095

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	Over 3 months but less than 1 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2016						
Non-derivative financial liabilities						
Trade and bills payables	–	1,607,015	–	–	1,607,015	1,607,015
Other payables	–	17,890	–	–	17,890	17,890
Amounts due to related companies	–	13,912	–	–	13,912	13,912
Borrowings	4.36	147,522	169,250	–	316,772	315,073
		1,786,339	169,250	–	1,955,589	1,953,890

34. FINANCIAL INSTRUMENTS *(Continued)*

Fair values of financial assets and liabilities

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

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

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	**Dividend payable**	**Guarantee fee payable to related companies**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 27)			
At 1 January 2017	315,073	–	–	315,073
Financing cash flows (i)	1,359,394	(77,116)	(6,465)	1,275,813
Non-cash transaction				
Dividend recognised as distribution	–	77,116	–	77,116
Finance costs	33,759	–	6,465	40,224
Discounted bills	(1,270,497)	–	–	(1,270,497)
Foreign exchange translation	22,092	–	–	22,092
At 31 December 2017	459,821	–	–	459,821

i) The cash flow from bank borrowings, discounted bills, loan from a fellow subsidiary, guarantee fee payable and dividend payable make up a net amount of proceeds from borrowings and repayment of borrowings, loan from a fellow subsidiary, guarantee fee payable and dividend payable in the consolidated statement of cash flows.

36. RELATED PARTY DISCLOSURES

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

Name of company	Notes	Nature of transaction	2017 HK$'000	2016 HK$'000
Immediate and ultimate holding company of the Group				
Sichuan Changhong	(i)	Sales of goods	**5,964**	20,269
		Purchase of goods	**27**	–
		Administrative expenses – rental expenses	**37**	30
Shareholder of immediate and ultimate holding company of the Group				
四川長虹電子控股集團有限公司	(ii)	Finance cost – guarantee charge	**6,465**	6,145
		Guarantee to suppliers – Maximum amount granted	**1,168,786**	1,716,273
Fellow subsidiaries of the Company				
四川虹信軟件有限公司	(iii)	Sales of goods	**7,543**	3,962
北京長虹科技有限公司	(iii)	Administrative expenses – rental expenses	**5,324**	5,901
		Sales of goods	**5**	5
北京京東方長虹網路科技有限責任公司	(iii)	Sales of goods	**–**	81
北京美菱電器營銷有限公司	(iii)	Sales of goods	**22**	22
四川長虹電子系統有限公司	(iii)	Sales of goods	**3,523**	9,067
四川虹微技術有限公司	(iii)	Sales of goods	**638**	8
		Purchase of goods	**305**	424

36. RELATED PARTY DISCLOSURES *(Continued)*

(a) *(Continued)*

Name of company	Notes	Nature of transaction	2017 HK$'000	2016 HK$'000
Fellow subsidiaries of the Company *(Continued)*				
四川長虹空調有限公司	(iii)	Sales of goods	**7**	7
廣元長虹電子科技有限公司	(iii)	Sales of goods	**98**	–
四川長虹國際酒店有限責任公司	(iii)	Administrative expense – Rental expense	**9**	–
Sichuan Changhong Network Technologies Co., Ltd.	(iii)	Sales of goods	**9**	10
		Administrative expense	**–**	34
四川快益點電器服務連鎖有限公司	(iii)	Sales of goods	**353**	45
成都長虹電子科技有限責任公司	(iii)	Administrative expenses – rental expenses	**1,512**	1,511
四川長虹教育科技有限公司	(iii)	Sales of goods	**–**	30,649
四川長虹物業服務有限公司	(iii)	Administrative expense – rental expenses	**353**	235
四川長虹通信科技有限公司	(iii)	Administrative expense – transportation	**7**	7
四川長虹民生物流有限責任公司	(iii)	Administrative expense – agency fee	**322**	384
Related company of the Group				
長虹財務	(iv)	Finance cost – settlement service fee	**29**	–
		Sales of goods	**367**	3,475

36. RELATED PARTY DISCLOSURES *(Continued)*

(b) The Group allows a credit period of 55 days for sales to its related parties. As at 31 December 2017, the Group had the following balances with related parties:

Name of company	Notes	Nature of transaction	2017 HK$'000	2016 HK$'000
Immediate and ultimate holding company of the Group				
Sichuan Changhong	(i)	Trade and bills receivables		
		Within 30 days	–	3,552
		31 – 60 days	134	4,790
			134	8,342
Fellow subsidiaries of the Company				
四川虹信軟件有限公司	(iii)	Trade and bills receivables		
		Within 30 days	1,403	52
		31 – 60 days	4,689	–
			6,092	52
四川長虹電子系統有限公司	(iii)	Trade and bills receivables		
		Within 30 days	–	5,925
		31 – 60 days	–	3,611
			–	9,536

36. RELATED PARTY DISCLOSURES *(Continued)*

(b) *(Continued)*

Name of company	Notes	Nature of transaction	2017 *HK$'000*	2016 *HK$'000*
Fellow subsidiaries of the Company *(Continued)*				
成都長虹電子科技有限責任公司	(iii)	Trade and bills receivables 61 – 90 days	**10**	–
四川長虹電器有限公司	(iii)	Trade and bills receivable Within 30 days	**483**	–
Related company of the Group				
長虹財務	(iii)	Trade and bills receivables Within 30 days	**444**	–
Total amounts due from related companies – trade and bills receivables			**7,163**	17,930
Shareholder of immediate and ultimate holding company of the Group				
四川長虹電子控股集團有限公司	(ii)	Other payables (v)	**6,690**	9,758
Fellow subsidiary of the Company				
北京長虹科技有限公司	(iii)	Other payables (v)	**–**	4,154
四川民生物流有限責任公司	(iii)	Other payables (v)	**88**	–
Total amounts due to related companies – other payables			**6,778**	13,912

36. RELATED PARTY DISCLOSURES *(Continued)*

(b) *(Continued)*

Notes:

(i) Sichuan Changhong holds approximately 69.32% equity interest of the Company.

(ii) 四川長虹電子控股集團有限公司 holds approximately 23.20% equity interest of Sichuan Changhong.

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

(iv) Sichuan Changhong holds 50% equity interests in 長虹財務.

(v) The amounts are unsecured, non-interest bearing and repayable on demand.

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

(c) Compensation of key management personnel

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

	2017	2016
	HK$'000	*HK$'000*
Short-term benefits	**19,895**	21,245
Post-employment benefits	**404**	485
	20,299	21,730

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

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

General information of subsidiaries

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

Name of subsidiaries	Place of incorporation/ registration and operation	Class of shares held	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly 2017 %	Directly 2016 %	Indirectly 2017 %	Indirectly 2016 %	Proportion of voting power held by the Company Directly 2017 %	Directly 2016 %	Indirectly 2017 %	Indirectly 2016 %	Principal activities
Changhong (Hong Kong) Enterprises Limited	Hong Kong	Ordinary	HK$10,001	–	–	100	100	–	–	100	100	Investment holding
CHIT 四川長虹佳華信息產品有限責任公司	PRC	–	RMB200,000,000	–	–	100	100	–	–	100	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT Digital 四川長虹佳華數字技術有限公司	PRC	–	RMB50,000,000	–	–	100	100	–	–	100	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Beijing Changhong IT Intelligence System Co., Ltd. 北京長虹佳華智能系統有限公司	PRC	–	RMB50,000,000	–	–	100	100	–	–	100	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT (Hong Kong) Information Products Co., Limited	Hong Kong	–	HK$10,000,000	100	100	–	–	–	100	–	–	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. 四川長虹佳華哆啦有貨電子商務有限公司	PRC	–	RMB100,000,000 (Note)	–	–	100	–	–	–	100	–	Provision of professional integrated IT solutions and services and distribution of consumer digital products and others

Note: The subsidiary was established in 2017 with registered capital of RMB100,000,000 and paid up capital of nil.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

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

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

Composition of the Group

At the end of the reporting period, the Company had other subsidiaries that are not material to the Group. A summary of these subsidiaries are set out as follows:

Principal activities	Places of incorporation and operation	Number of wholly-owned subsidiaries	
		2017	2016
Investment holding	British Virgin Island	**2**	2

38. EVENT AFTER REPORTING PERIOD

On 12 March 2018, the principal place of business of the Company in Hong Kong was changed to Unit 1412, 14/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property and equipment	**48**	52
Investments in subsidiaries (Note a)	**1,241,751**	1,241,751
	1,241,799	1,241,803
Current assets		
Prepayments, deposits and other receivables	**809**	664
Amounts due from a subsidiary (Note b)	**2**	2
Bank balances and cash	**67**	372
	878	1,038
Current liabilities		
Other payables	**2,978**	7,186
Amounts due to subsidiaries (Note b)	**218,148**	136,838
	221,126	144,024
Net current liabilities	**(220,248)**	(142,986)
	1,021,551	1,098,817
Capital and reserves		
Share capital	**36,366**	36,366
Convertible preference shares	**27,897**	27,897
Reserves (Note c)	**957,288**	1,034,554
	1,021,551	1,098,817

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

Notes:

(a) As at 31 December 2017, investments in subsidiaries are carried at cost of HK$1,241,751,000 (2016: HK$1,241,751,000).

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

(c) Movements of reserves during both years are as follows:

	Contributed surplus *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
1 January 2016	2,043,641	(952,702)	1,090,939
Loss and total comprehensive expense for the year	–	(4,975)	(4,975)
Dividends recognised as distribution (Note 14)	(51,410)	–	(51,410)
At 31 December 2016 and 1 January 2017	**1,992,231**	**(957,677)**	**1,034,554**
Loss and total comprehensive expense for the year	**–**	**(150)**	**(150)**
Dividends recognised as distribution (Note 14)	**(77,116)**	**–**	**(77,116)**
At 31 December 2017	**1,915,115**	**(957,827)**	**957,288**