SHLD 升華蘭德

浙江升華蘭德科技股份有限公司

SHENGHUA LANDE SCITECH LIMITED*

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

Stock Code: 8106

2018

Annual Report

* For identification purposes only

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* *For identification purposes only*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

SUPERVISORS

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

AUTHORISED REPRESENTATIVES

Mr. Xu Jianfeng
Mr. Fork Siu Lun Tommy

COMPLIANCE OFFICER

Mr. Chen Ping

COMPANY SECRETARY

Mr. Fork Siu Lun Tommy

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

17/F., Deqing Shanghui Building
No. 70 Wulipai Road
Deqing County
Huzhou City
Zhejiang Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1505
15/F., Fullerton Centre
19 Hung To Road
Kwun Tong
Kowloon
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

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

PRINCIPAL BANKER

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

Zhejiang Deqing Rural Commercial Bank Co., Ltd.
50 Shengchangwei Street
Wukang Town
Deqing County
Huzhou City
Zhejiang Province
The PRC

STOCK CODE

8106

CHAIRMAN'S STATEMENT

I would like to present hereby on behalf of the Board the 2018 annual report of the Company and its subsidiaries (together the "**Group**").

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018, the Group recorded a revenue of approximately RMB217,107,000 with a net profit attributable to owners of the Company of approximately RMB8,393,000.

The Board does not recommend the payment of a final dividend for the financial year ended 31 December 2018.

REVIEW OF OPERATIONS AND PROSPECTS

During the reporting year, the Group continued to engage in the provision of telecommunication solutions, the trading of hardware and computer software and the provision of telecommunication value-added services; commenced the provision of smart city solutions business after the completion of the Increator Technology Acquisition (as defined and detailed in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 11 of this annual report) in February 2018; and carried out the provision of e-commerce supply chain services business in accordance with the Group's overall strategic development and business planning needs in the last quarter of 2018. The Group contrived to promote the development of various businesses. However, due to the difference in the resources of the Group for various businesses and the difference of various business markets, there is a variety of performance across each business line. The provision of telecommunication solutions business has not yet opened up; the trading of hardware and computer software business has improved sales margin and profitability through better management and operation while maintaining its scale of sales; the revenue from the provision of telecommuciation value-added services business has shrunk slightly, and by strengthening management and controlling costs, the business has turned losses into profit; the provision of smart city solutions business performed in line with expectation and is now in the course of implementing its business contracts and negotiating further cooperation orders in different locations; and the provision of e-commerce supply chain services business is a business profit center built to cope with the intended subsequent development of operation services and to accumulate relevant market resources and business management experience. The business was launched in the last quarter of 2018 and is still at an early stage. Through the unremitting efforts of all employees of the Group, the overall operational level of the Group has ameliorated.

The Group has been seeking to transform into mobile Internet services and actively grasped the development opportunities of the domestic mobile Internet industry and the smart city construction. During the reporting year, the Group has made tangible remarks in this aspect, such as completing the Increator Technology Acquisition, establishing a smart union operation service subsidiary, launching the e-commerce supply chain services business, and negotiating to form joint venture company to participate in smart city operation services, etc. and tried to propel the improvement of its original business through the help of Increator Technology Co., Ltd* (浙江創建科技有限公司) ("**Increator Technology**") acquired through the Increator Technology Acquisition. In recent years, with the rapid development of the domestic mobile Internet, the market is volatile and the competition has intensified. In 2019, the Group will continue to focusing on development strategy goals, combining market changes, integrating existing internal resources, optimising and adjusting business structure, and cohesiving forces to transform into mobile Internet services. The Group hopes to improve the profitability of the Group and get out of business dilemma as soon as possible through effective measures like strengthening internal management, enhancing sales and marketing power, increasing technology development level, and accumulating operation service capabilities, etc..

Finally, on behalf of the Board and the management, I would like to express my heartfelt thanks to the continued support of the business partners, the customers of the Group and the shareholders (the "**Shareholders**") of the Company and the long-term hard work of all staff members.

Qi Jinsong
Chairman

15 March 2019
Huzhou City, the PRC

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MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

1. Review of operating results for the year

(i) Overview

The Group is principally engaged in (i) the provision of telecommunication solutions; (ii) the trading of hardware and computer software; (iii) the provision of telecommunication value-added services; (iv) the provision of smart city solutions (the Group commenced the business after the completion of the Increator Technology Acquisition (as defined and detailed below) in February 2018); and (v) the provision of e-commerce supply chain services (the business involves the e-trading of general merchandise and the provision of related services, which includes the provision of supply chain services from the production end, the procurement end to the consumer end for market customers such as e-commerce platforms, branded manufacturers and merchants through the integration of Internet information technology means and data analysis, and was commenced by the Group in the last quarter of 2018).

There is no particular seasonal fluctuation in the Group's revenue except that revenues from various business segments in the first quarter are in general lower than those in other quarters. This is primarily due to decreased business activities throughout the PRC before, during and after the week-long Chinese New Year holidays, which occur in January or February of a year. However, the characteristics of the provision of smart city solutions business of the Group is project based. Currently the main revenue of the business comes from specific projects and the income depends on the obtaining of project orders and the progress of projects and therefore it is volatile.

In line with industry performance, the Group's hardware and computer software sales and e-trading of general merchandise normally have relatively low gross profit margin. With the continuous optimisation of product structure and sales strategies and the improvement of service levels, the gross profit margin will increase accordingly. On the other hand, the Group's provision of software development, technical support and various value-added services normally enjoy relatively higher gross profit margin, which vary among different projects and/or products.

(ii) Revenue

For year ended 31 December 2018, (i) the provision of telecommunication solutions business had not generated revenue (2017: Nil); (ii) the trading of hardware and computer software business generated revenue of approximately RMB166,303,000 (2017:RMB161,366,000), representing an increase of approximately 3.06% when compared to last year; (iii) the provision of telecommunication value-added services business generated revenue of approximately RMB10,271,000 (2017: RMB11,710,000), representing a decrease of approximately 12.29% when compared to last year; (iv) the provision of smart city solutions business generated revenue of approximately RMB36,278,000 (2017: Nil). The revenue from this business was consolidated into the Group's financial statements after the completion of the Increator Technology Acquisition (as defined and detailed below) in February 2018, and (v) the provision of e-commerce supply chain services business generated revenue of approximately RMB4,255,000 (2017: Nil). The Group commenced the business in the last quarter of 2018.

For the year ended 31 December 2018, the revenue of the Group was approximately RMB217,107,000 (2017: RMB173,076,000), representing an increase of approximately RMB44,031,000, or approximately 25.44%, as compared with that of 2017. The increase in the revenue of the Group for the year was mainly attributable to the growth of the trading of hardware and computer software business, and the contribution of the provision of smart city solutions business newly acquired in 2018 and the provision of e-commerce supply chain services business commenced in the last quarter of 2018.

(iii) Gross profit margin

For the year ended 31 December 2018, (i) the provision of telecommunication solutions business had not generated gross profit (2017: Nil); (ii) the gross profit margin of the trading of hardware and computer software business was approximately 4.70% (2017: 1.67%). Compared with last year, the gross profit margin of this business increased as the Group began to adjust the sales strategy of this business in 2018 to optimising the sales structure by increasing the sales of brands and products with higher margin, while decreasing the sales of brands and products with low margin; (iii) the gross profit margin of the provision of telecommunication value-added services business was approximately 84.80% (2017: 92.44%). The decrease in gross profit margin of this business during the year was mainly due to the increase in the cost of external calls; (iv) the gross profit margin of the provision of smart city solutions business was approximately 55.50%; and (v) the gross profit margin of the provision of e-commerce supply chain services business was approximately 26.84%.

The gross profit margin of the Group for the year ended 31 December 2018 was approximately 17.41% (2017: 7.81%). The increase in the gross profit margin of the Group during the year was mainly attributable to the contribution of the provision of smart city solutions business newly acquired in 2018 and the improvement in the gross profit margin of the trading of hardware and computer software business.

(iv) Profit (loss) attributable to owners of the Company and earnings (loss) per share

For the year ended 31 December 2018, (i) the provision of telecommunication solutions business had not recorded segment results (2017: Nil); (ii) the trading of hardware and computer software business reported segment profit of approximately RMB4,247,000 (2017: RMB117,000), demonstrating significant improvement in the segment results of this business for the year, as the Group has adjusted the sales strategy and product portfolio of the business in 2018 to increase the sales of higher margin brands and products; (iii) the provision of telecommunication value-added services business reported segment profit of approximately RMB433,000 (2017: loss of RMB1,341,000). The improvement of this business's performance during the year was mainly due to the Group's strengthening of management while stabilising the revenue of the business, and exerting continued pressure to reduce operating costs and expenses such as rental and operation centre outsourcing expenses; (iv) the provision of smart city solutions business reported segment profit of approximately RMB9,146,000 (2017: Nil); and (v) the provision of e-commerce supply chain services business reported segment profit of approximately RMB913,000 (2017: Nil). For the year ended 31 December 2018, the net unallocated expenses of the Group were approximately RMB6,516,000 (2017: RMB4,962,000). The net unallocated expenses of the Group for the year ended 31 December 2018 included net exchange gain of approximately RMB1,162,000 (2017: net exchange loss of RMB1,804,000).

As a result of the cumulative effect of the principal factors described above, the net profit attributable to owners of the Company for the year ended 31 December 2018 was approximately RMB8,393,000 (2017: loss of RMB4,392,000). The earnings per share of the Group for the year ended 31 December 2018 was approximately RMB1.66 cents (2017: loss of RMB0.87 cents).

2. Business and product development

During the reporting year, the telecommunication solutions business of the Group was seeking to achieve new order revenue through internal resource integration, but had experienced considerable difficulties. At the same time, the Group's trading of hardware and computer software business maintained a stable source of income, and gradually improved revenue and profitability by strengthening sales team and changing sales strategies. In respect of the telecommunication value-added services business, the Group continued the operation with the telecommunication operators for the provision of the services such as SMS business cards (短信名片), 114 Bai Shi Tong Alliance (114號碼百事通), precise marketing (精準行銷) and etc.. These businesses at various locations were in operation at the sites concerned. But when comparing with last year, the revenue of the business decreased slightly. Through the strengthening of management and control of costs, the business has realised a turnaround from losses into profits. Against the status quo of the business, the Group is reconsidering the development model of the business and making necessary adjustments thereto according to the actual situation of the relevant business market.

On the other hand, with the completion of the Increator Technology Acquisition (as defined and detailed below) in February 2018, the Group provided smart city solutions business and launched the mobile Internet industry application and service business, providing the customers with relevant software development and value-added services. The business is under normal operation and its business contracts continue to be implemented in various places. The Group is continuing to actively exploring the synergy between the smart city solutions business and other businesses of the Group to develop new solutions, value-added services products and drive the development of the trading of hardware and computer software business to enhance the overall competitiveness of the Group's business and products. Among them, the Group is continuing to seek Citizen Card* (市民卡) operation service projects and smart union (智慧工會) operation service projects. The Group is negotiating related projects with individual cities. Under the premise of mutual trust and mutual benefit and win-win situation, the Group will strive to carry out relevant operation services as soon as possible. Amongst them, in the last quarter of 2018, the Group established a wholly-owned subsidiary, Hangzhou Increator Smart Union Technology Co., Ltd.* ("**Increator Smart Union**"), to participate in the construction and operation services of the smart unions in Hangzhou City, Zhejiang Province. At the same time, the Group is also actively planning the distribution of other value-added service products to enhance the profitability of the operation services business. This will help the Group to dig deep into the mobile Internet field and gain more business value and business opportunities.

Having seen this, the Group commenced the provision of e-commerce supply chain services business in the last quarter of 2018 to cooperate with the well-known cross-border e-commerce platforms in the Mainland to open up upstream and downstream channels providing cross-border e-commerce general merchandise supply chain services.

3. Investment and cooperation

In order to accelerate the Group's business development in the mobile Internet industry, on 29 September 2017, the Company entered into the equity transfer agreement to acquire 100% of the equity interest in Increator Technology at the consideration of RMB25,200,000 (the "**Increator Technology Acquisition**"). The principal activities of Increator Technology are the provision of smart city solutions, including primarily the provision of software development and value-added services mainly relating to the construction and operation maintenance of Citizen Card* (市民卡) systems to customers. The Increator Technology Acquisition was approved by the Shareholders of the Company at the extraordinary general meeting held on 29 January 2018 and completed on 5 February 2018. Details of the Increator Technology Acquisition were set out in the announcements dated 29 September 2017, 23 October 2017, 24 November 2017, 13 December 2017, 29 January 2018 and 12 February 2018, and the circular dated 15 December 2017 issued by the Company, respectively.

In addition, the Group is also constantly seeking new investment opportunities or business cooperation opportunities, including opportunities for expansion of existing businesses and other potential new business opportunities suitable for the Group's development, for example, wholly-owned or joint venture establishment of operation companies for the operation services business. In the last quarter of 2018, the Group established a wholly-owned subsidiary to participate in the construction and operation services of the smart unions in Hangzhou City. There are other cooperation intentions in negotiations, but the Group has not yet entered into any definitive agreement in relation thereto up to present.

During the year ended 31 December 2018, the Group deregistered an immaterial subsidiary, namely Hangzhou Huaguang Software Co., Ltd.* (杭州華光軟件有限公司), due to restructuring of business units.

During the year, the Group has invested its temporary surplus funds in short term wealth management products placed with creditable bank with no fixed maturity period and redeemable on the same day or the next day and the redemption amount could be used in real time. Such wealth management products had expected annualised rate of return of around 2.00% to 3.85%, which was relatively higher than the comparable market bank demand deposit rates. The Directors considered that the risks of the aforementioned investments in the wealth management products were similar to bank deposits, and such investments were able to maximise the overall returns to the Shareholders while maintaining the flexibility of the Group's treasury management. As at 31 December 2018, the Group's investments in the wealth management products were classified as financial assets at fair value through profit or loss in its consolidated statement of financial position, and amounted to approximately RMB27,300,000.

During the reporting year, the Group also maintained good cooperation relationship with the telecommunication operators, the Citizen Card* (市民卡) management companies at various places and other business partners.

4. Principal risks and uncertainties

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

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

5. Employees information

As at 31 December 2018, the Group had approximately 173 (31 December 2017: 44) employees in total. The total staff costs of the Group for the reporting year amounted to approximately RMB27,492,000 (2017: RMB5,152,000). The total number of employees of the Group as at the end of the reporting year increased significantly from that as at the end of last year, which was mainly attributable to the completion of the Increator Technology Acquisition in February 2018 and the expansion of the sales team of the Group's trading of hardware and computer software business during the reporting year. At the same time, it also led to a significant increase in the staff costs during the reporting year compared to last year.

The Group's human resources management strategy is formulated in accordance with the Group's guidelines of development strategy on one hand and with requirements under long term vision planning as its target direction on the other. At the same time, incentive scheme would be embedded in other human resources programs and flourishing result would be expected from this cross match. The Group opened wide for recruitment channels, set up mechanisms for attracting human resources, grasped for human development and formulated a good system in people deployment and incubation. The Group implemented an annual income target system which was linked up with staff performance appraisal and compensation system. Target annual income was confirmed and released in accordance with performance appraisal result. After a total assessment on employee's job performance, capability and work attitude, an integrated evaluation could be established for the employee which would be used as referencing standard. Through the integration of the two systems, the employees were effectively motivated and the attainment of the Group's target was assured.

The Group did envisage on employee's personal development and provided employees with training courses on quality and skills. Training plan was given to suit individual staff to help each one more compatible with the Group's job requirement and ensured comprehensive development during his/her career life.

The Group did not issue any share options.

6. Environment protection

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

7. Compliance

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

REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

1. Financial performance

- For the year ended 31 December 2018, the Group's revenue amounted to approximately RMB217,107,000 (2017: RMB173,076,000).

- For the year ended 31 December 2018, the Group achieved a gross profit margin of approximately 17.41% (2017: 7.81%).

- For the year ended 31 December 2018, the Group achieved a net profit attributable to owners of the Company of approximately RMB8,393,000 (2017: loss of RMB4,392,000).

- For the year ended 31 December 2018, the Group recorded earnings per share of approximately RMB1.66 cents (2017: loss of RMB0.87 cents).

2. Financial positions

- The Group maintained creditable financial conditions. For the year ended 31 December 2018, the Group was mainly financed by proceeds generated from daily operations, other internal resources and bank borrowing.

- As at 31 December 2018, the Group had an intangible asset of approximately RMB1,225,000 (2017: Nil). The Group's intangible assets, representing self-developed software, were attributable to the smart city solutions business acquired during the year.

- As at 31 December 2018, the Group had goodwill of approximately RMB1,856,000 (2017: Nil). The goodwill of the Group was generated as a result of the acquisition of the smart city solutions business during the year.

- As at 31 December 2018, the Group had inventories of approximately RMB9,100,000 (2017: RMB3,143,000). The increase in the Group's inventories during the year was mainly attributable to the increase in inventory of computer server hardware and general merchandise.

- As at 31 December 2018, the Group had total prepayments and other receivables of approximately RMB31,087,000 (2017: RMB6,361,000). The increase in the Group's total prepayments and other receivables during the year was mainly attributable to the increase in prepayments to hardware and computer software suppliers and other receivables relating to the smart city solutions business acquired during the year.

- As at 31 December 2018, the Group had contract assets of approximately RMB1,583,000 (2017: Nil). The increase in the Group's contract assets during the year was attributable to the smart city solutions business acquired during the year.

- As at 31 December 2018, the Group's total bank balances and cash and financial assets at fair value through profit or loss (which represents wealth management products placed at a bank as detailed above) amounted to approximately RMB62,472,000 (2017: RMB48,582,000). The total bank balances and cash and financial assets at fair value through profit or loss to total assets and net assets ratio as at 31 December 2018 were approximately 44.64% (2017: 47.37%) and 59.45% (2017: 49.96%), respectively.

- As at 31 December 2018, the Group had trade and other payables of approximately RMB21,508,000 (2017: RMB4,753,000). The increase in the Group's trade and other payables during the year was mainly attributable to the smart city solutions business acquired during the year.

- As at 31 December 2018, the Group had contract liabilities/receipt in advance from customers of approximately RMB3,303,000 (2017: RMB557,000). The increase in the Group's contract liabilities/receipt in advance from customers during the year was mainly attributable to the increase in security deposits received from customers.

- As at 31 December 2018, the Group had bank borrowing of approximately RMB10,000,000 (2017: Nil). The bank borrowing was raised for the purpose of increasing the working capital for the operations of the Group.

- As at 31 December 2018, the Group had a total asset value of approximately RMB139,958,000 (2017: RMB102,550,000).
- As at 31 December 2018, the Group had current liabilities of approximately RMB34,867,000 (2017: RMB5,310,000).
- As at 31 December 2018, the Group had equity attributable to owners of the Company of approximately RMB102,878,000 (2017: RMB94,485,000).
- As at 31 December 2018, the Group had non-controlling interests of approximately RMB2,213,000 (2017: RMB2,755,000).
- As at 31 December 2018, the Group had a gearing ratio (i.e. the ratio of total liabilities to total assets) of approximately 24.91% (2017: 5.18%).
- As at 31 December 2018, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 26.08% (2017: 5.23%).
- The Group's exposure to foreign currency risk relates principally to its bank balances, trade receivables, other receivables, contract assets and trade and other payables denominated in foreign currencies other than the functional currency of the relevant group entity. The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Further information on the Group's currency risk are set out in note 6 to the consolidated financial statements.
- As at 31 December 2018, none of the Group's assets were pledged (2017: Nil).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group has no material contingent liabilities (2017: Nil).

CAPITAL STRUCTURE

There were no changes in the Company's capital structure during the year ended 31 December 2018 (2017: Nil). The registered capital of the Company was RMB50,654,617, comprising 244,421,170 domestic shares of the Company of nominal value of RMB0.10 each and 262,125,000 H shares of the Company of nominal value of RMB0.10 each, as at 31 December 2018 and 2017.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

FUTURE PROSPECTS

1. Orders in hand/Status in sales contract

During the reporting year, the telecommunication solutions business of the Group did not obtained orders and there were difficulties in its advancement. The Group's trading of hardware and computer software business worked with industry-leading hardware and software vendors to gradually improve business revenue structure and profitability. All telecommunication value-added service businesses of the Group in cooperation with the telecommunication operators were still within valid contract periods. These businesses at various locations were in operation at the sites concerned, providing a stable source of business income. Following the completion of the Increator Technology Acquisition in February 2018, the Group took part in the business of the provision of smart city solutions. As at 31 December 2018, the Group's smart city solutions construction service contracts on hand are being implemented at various locations inside and outside Zhejiang Province as planned, and are mainly related to the software development and/or provision of related valued-added services projects for the construction and operation maintenance of Citizen Card* (市民卡) systems. At the same time, the Group is striving for business order and contracts in other cities. The Group's provision of e-commerce supply chain services business is at the start-up stage, and is in contact with domestic e-commerce platforms, domestic and foreign branded manufacturers and merchants to seek more business cooperation and orders.

The Group is considering the complementary synergies between the business of Increator Technology and the other businesses of the Group, and endeavors to re-establish contact with telecommunication operators and other new customers through the technology and sales capabilities of Increator Technology to obtaining telecommunication solutions and other solutions contracts, makes use of the expansion and implementation of the smart city solutions business in various places across the country to striving for telecommunication value-added services business orders from telecommunication operators in other regions or provinces and obtaining other related value-added services contracts, takes advantage of the development of the smart city solutions business to pursuing supporting hardware sales contracts.

2. Prospects of new business and new products

After the completion of the Increator Technology Acquisition in February 2018, the Group would benefit from the technology development capacity of Increator Technology to achieve the innovation and development of its mobile Internet service business; which allow the Group to tap into the mobile Internet industry through its participation in the business of Increator Technology, namely the research and development, the construction and the potential operation of the Citizen Card* (市民卡) system and gain more commercial value and business opportunities.

The Group will continue to expand its business in the following three directions: (i) improving the profitability of the trading of hardware and computer software business, continuously adjusting to increase the sales of the brands and product categories with higher gross profit margins and to decrease the sales of the brands and product categories with lower gross profit margins, enhancing the terminal hardware customer sales, and relying on smart city solutions business development to seek supporting hardware sales business; (ii) breaking the self-restriction of the original telecommunication solutions business and the telecommunication value-added services business, no longer limited to telecommunication operators, and try to promote solutions and value-added services in other broad fields with the help of the technology and business development of Increator Technology, facilitating the Group 's transformation into mobile Internet companies; and (iii) grasping the good development opportunities for smart city construction and promoting the smart city solutions business, strengthening technology research and development, encouraging the continuous improvement and marketing of Increator Technology's Digital Citizen* (數字市民) products (system products based on the core Citizen Card* (市民卡) system developed with higher service standards and a wider range of services), while deepening the traditional project engineering business, intensifing the negotiation of Citizen Card* (市 民 卡) system operation service projects in order to try to commence cooperative operation in appropriate cities as soon as possible, and making use of the help of the newly established Increator Smart Union and prospective joint venture company to operate the service business platform. This will provide a physical platform for the Group's commercial operation when entering the mobile Internet service, which will combine with the resources and experience accumulated by the Group's original telecommunication value-added services business, promote the Group's transition to mobile "Internet +" and provide new value-added services. The Group will continue to advance its business development around the above three aspects. The Board believes that the Group will consolidate and enhance the Group's comprehensive competitiveness in the above three aspects, and strive to achieve new business and new product breakthroughs in the field of mobile Internet services and smart city construction.

Besides, the Group will focus on the mobile Internet industry, combine the existing business and technological advantages and continue to seek new business opportunities, build a business ecosystem with sustainable development capabilities and create an integrated service platform for smart city life, for example, through the establishment and operation of a Citizen Card* (市民卡) operating platform (a mobile Internet business platform with a wide range of end-user groups (local citizens, enterprises, institutions)) and the use of the wide customer base of the platform, provides various convenient value-added services and business activities, including e-commerce service, etc., to meet the interests of the Group and the Shareholders as a whole.

In order to achieve the above development goals, the Group has been actively exploring the feasibility of value-added services and/or commercial activities to provide new business and new products with profitability potential for future operation service platforms. In this connection, the Group commenced the provision of e-commerce supply chain services business in the last quarter of the reporting year with a view to quickly accessing the smart city life integration service platform in the future, enabling which to become a profitable business in the process of serving the public.

3. Use of 2015 Placing Proceeds

The change of use of the net proceeds (the "**2015 Placing Proceeds**") received by the Company from the placing of its 150,000,000 new H shares in the end of the year 2015 was approved by the Shareholders at the extraordinary general meeting held on 29 January 2018. The relevant details were set out in the announcements dated 29 September 2017, 23 October 2017, 24 November 2017, 13 December 2017 and 29 January 2018, and the circular dated 15 December 2017 issued by the Company, respectively.

The use of the 2015 Placing Proceeds up to 31 December 2018 are summarised in the following table:

No.	Uses of net proceeds	Allocation (revised as per approval by the Shareholders at the extraordinary general meeting held on 29 January 2018)	Utilised amount as at 31 December 2018	Remaining balance as at 31 December 2018
(a)	Investments in research and development in relation to telecommunication solutions and telecommunication value-added services, developing data mining technologies and online business and its application or marketing platform, creating business platforms for corporate mobile Internet, with a view to transforming towards "Internet +"	Approximately RMB5,000,000	–	Approximately RMB5,000,000 (Note)
(b)	Future investments	Approximately RMB10,000,000	Approximately RMB10,000,000	–
(c)	General working capital	Approximately RMB21,000,000	Approximately RMB21,000,000	–
(d)	Settlement of consideration for the Increator Technology Acquisition	Approximately RMB6,000,000	Approximately RMB6,000,000	–

Note:

The Group is making great efforts to transform into the mobile Internet industry. With the expansion of the Group's mobile Internet operation services business, the funds will be used in a timely manner for research and development of projects included in the intended use of net proceeds to meet the needs of the development of the operation services business. It is currently expected that the funds will be used in 2019.

On behalf of the Board
Qi Jinsong
Chairman

15 March 2019
Huzhou City, the PRC

* *For identification purposes only*

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, the supervisors (the "**Supervisors**") of the Company and the senior management of the Group as at 15 March 2019, the date of this annual report, are set out as follows:

DIRECTORS

Executive Directors

Mr. Qi Jinsong (戚金松) (formerly Mr. Qi Jinsong (戚金崧)), aged 54, is the chairman (the "**Chairman**") and the chief executive officer (the "**Chief Executive Officer**") of the Company. Mr. Qi is also a director of Shenghua Scitech Information Limited (formerly known as Zheda Lande Scitech Information Limited) ("**Shenghua Scitech Information**"), a wholly-owned subsidiary of the Company. Mr. Qi completed a two-year online professional course for economics offered by China University of Geosciences (Wuhan)(中國地質大學(武漢)) in April 2005. Mr. Qi was appointed as the general manager and the president of the board of Zhejiang Shenghua Qiang Ci Material Company Limited* (浙江升華強磁材料有限公司) (currently known as Zhejiang Long Hua Shu Furniture Company Limited*(浙江龍華樹家具有限公司)) ("**Shenghua Qiang Ci Material**") from January 2009 to February 2012. From February 2012 to April 2013, he was the deputy general manager and later the general manager of Shenghua Estate Group Company Limited*(升華地產集團有限公司)("**Shenghua Estate**"). From April 2013 to July 2013, he was appointed as the deputy general manager of Zhejiang Shenghua Biok Biology Co., Ltd(浙江升華拜克生物股份有限公司)("**Shenghua Biok Biology**"), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600226). From July 2013 to June 2014, he was the deputy general manager of Meidu Group Company Limited*(美都集團股份有限公司)("**Meidu Group**"). Mr. Qi was appointed as the executive vice president (from June 2014 to July 2016) and the director (from May 2015 to July 2016) of Meidu Energy Company Limited*(美都能源股份有限公司)("**Meidu Energy**"), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600175). Mr. Qi joined the Company since February 2017 and has been appointed as an executive Director since May 2017.

Mr. Chen Ping (陳平), aged 54, is the vice chairman (the "**Vice Chairman**") and the compliance officer (the "**Compliance Officer**") of the Company. Mr. Chen is an advisor to students seeking their masters' degree and an associate professor at Zhejiang University(浙江大學). Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University(浙江大學) with a bachelor's degree and a master's degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University (浙江大學), Mr. Chen has been involved in the research and development of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize (浙江省科學技術進步二等獎及三等獎) issued by the Zhejiang Provincial People's Government in 1993. Mr. Chen had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University (浙江大學) for seven years up to 1997. Mr. Chen published two computers networking academic textbooks and a number of academic research papers in the PRC. Mr. Chen joined the Company since May 1997 and has been appointed as an executive Director since May 2017.

Mr. Guan Zilong (管子龍), aged 30, is the financial controller of the Company. Mr. Guan is also a director of Increator Technology and Shenghua Scitech Information, both wholly-owned subsidiaries of the Company. Mr. Guan graduated from China Jiliang College*(中國計量學院) (currently known as China Jiliang University (中國計量大學)) and obtained a bachelor's degree in management majoring in financial management in June 2011. Mr. Guan is a non-practising member (非執業會員) of Zhejiang Institute of Certified Public Accountants (浙江省註冊會計師協會). Between July 2011 and May 2016, he was with Pan-China Certified Public Accountants LLP* (天健會計師事務所(特殊普通合夥)) and mainly handled annual audit works for listed companies and initial public offering works for proposed listing applicants. Mr. Guan joined the Company since June 2016 and has been appointed as an executive Director since May 2017.

Mr. Xu Jianfeng (徐劍鋒), aged 32, is the secretary of the Board and the authorised representative (the "**Authorised Representative**") of the Company. Mr. Xu is also a director of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Xu graduated from Jiangxi University of Finance and Economics(江西財經大學) majoring in tourism management and finance (second degree) in July 2009 and obtained a bachelor's degree in management and a bachelor's degree in economics. Since July 2009 till May 2017, Mr. Xu was appointed as the secretary to the president(總裁秘書)of Shenghua Group Holdings Co., Ltd.*(升華集團控股有限公司)("**Shenghua Group Holdings**"). Mr. Xu joined the Company and has been appointed as an executive Director since May 2017.

Independent Non-Executive Directors

Mr. Cai Jiamei（蔡家楣）, aged 72, is the chairman of the remuneration committee (the "**Remuneration Committee**") of the Company. Mr. Cai graduated from the Physics Department of Fudan University（復旦大學）majoring in semiconductor in August 1970. From May 2010 to January 2015, Mr. Cai was appointed as an independent non-executive director of Hangzhou New Century Information Technology Co., Ltd.*（杭州新世紀信息技術股份有限公司）(currently known as Hangzhou Liaison Interactive Information Technology Co., Ltd.*（杭州聯絡互動信息技術股份有限公司）), a company listed on the Shenzhen Stock Exchange (stock code: 002280). From August 2011 to August 2017, Mr. Cai was appointed as an independent non-executive director of B-soft Company Limited*（創業軟件股份有限公司）, a company listed on the Shenzhen Stock Exchange (stock code: 300451). He has been appointed as an independent non-executive director of Sunwave Telecommunication Company Limited*（三維通信股份有限公司）, a company listed on the Shenzhen Stock Exchange (stock code: 002115), since July 2013. From January 2014 to January 2019, he was appointed as an independent non-executive director of Hangzhou Xianlin Sanwei Technology Company Limited*（杭州市先臨三維科技股份有限公司）, a company listed on the National Equities Exchange and Quotations (stock code: 830978). Since June 2018, he has been appointed as an independent non-executive director of Xinhu Zhongbao Co., Ltd.*（新湖中寶股份有限公司）, a company listed on the Shanghai Stock (stock code: 600208). Mr. Cai was elected as the chairman of the second and third session of the council of Zhejiang Software Industry Association*（浙江省軟件行業協會）in 2008 and 2012, respecrtively. Mr. Cai was appointed as the dean of the College of Information Engineering*（信息工程學院）(from October 2000 to August 2004), the College of Software*（軟件學院）(from April 2002 to May 2006) and the College of Software Vocational Skills*（軟件職業技術學院）(from April 2002 to May 2006) of Zhejiang University of Technology（浙江工業大學）. Mr. Cai joined the Company and has been appointed as an independent non-executive Director since May 2017.

Ms. Huang Lianxi（黃廉熙）, aged 56, is the chairman of the nomination committee (the "**Nomination Committee**") of the Company. Ms. Huang graduated from East China College of Political Science and Law（華東政法學院）(currently known as East China University of Political Science and Law（華東政法大學）) in August 1983 majoring in law. Ms. Huang furthered her legal study at Shanghai College of International Business and Economics（上海對外貿易學院）(currently known as Shanghai University of International Business and Economics（上海對外貿易大學）) in 1984 and graduated in July 1986. From 1991 to 1992, Ms. Huang attended a one-year course in United Kingdom Practical Training Scheme for Lawyers of the People's Republic of China at the University of London and obtained a certificate of completion. From September 1984 to September 2003, Ms. Huang worked at Zhejiang Economy Law Firm*（浙江省經濟律師事務所, currently known as Zhejiang Zhe Jing Law Firm*（浙江浙經律師事務所）) as a lawyer, the deputy head officer（副主任）and the partner successively. Ms. Huang is a partner of Zhejiang Tiance Law Firm*（浙江天冊律師事務所）and she joined the firm since September 2003. In October 2008, Ms. Huang was recognised as Outstanding Lawyer（全國優秀律師）for the years 2005 to 2007 by All China Lawyers Association*（中華全國律師協會）. In February 2013, Ms. Huang was appointed as a member of the twelfth National Committee for Chinese People's Political Consultative Conference*（中國人民政治協商會議第十二屆全國委員會）. In January 2018, Ms. Huang has been appointed as a member of the thirteenth National Committee for Chinese People's Political Consultative Conference*（中國人民政治協商會議第十三屆全國委員會）.Ms. Huang is an arbitrator of the China International Economic and Trade Arbitration Commission（中國國際經濟貿易仲裁委員會）. Ms. Huang is the vice-president of the Lawyers Association of Zhejiang*（浙江省律師協會）. Ms. Huang was an independent non-executive director of Zhejiang Zhenyuan Company Limited（浙江震元股份有限公司）, a company listed on the Shenzhen Stock Exchange (stock code: 000705), from June 2008 to August 2014. From April 2008 to April 2014, Ms. Huang was appointed as an independent non-executive director of Sunny Loan Top Company Limited（香溢融通控股集團股份有限公司）, a company listed on the Shanghai Stock Exchange (stock code: 600830). From April 2009 to April 2015, Ms. Huang was appointed as an independent non-executive director of Shenghua Biok Biology. She was an independent non-executive director of China Calxon Group Company Limited*（嘉凱城集團股份有限公司）(formerly known as Hunan Yahua Holdings Group Company Limited*（湖南亞華控股集團股份有限公司）), a company listed on the Shenzhen Stock Exchange (stock code:000918), from August 2009 to March 2016. From July 2013 to November 2018, Ms. Huang was appointed as an independent non-executive director of Zhejiang Kangsheng Co., Ltd.（浙江康盛股份有限公司）, a company listed on the Shenzhen Stock (stock code: 002148). She has been an independent non-executive director of a company listed Zhejiang Youpon Ceiling Company Limited*（浙江友邦吊頂股份有限公司）, a company listed on the Shenzhen Stock Exchange (stock code: 002718), since March 2016 and Zuoli Kechuang Micro-finance Company Limited（佐力科創小額貸款股份有限公司）, a company listed on the main board of the Stock Exchange (stock code: 6866), since April 2014. Ms. Huang joined the Company and has been appointed as an independent non-executive Director since May 2017.

Mr. Shen Haiying (沈海鷹), aged 47, is the chairman of the audit committee (the "**Audit Committee**") of the Company. Mr. Shen completed a two-year professional course for accounting jointly offered by The Broadcast and Television University of China* (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) and Beijing Technology and Business University (北京工商大學) in January 2005. From November 1999 to March 2007, Mr. Shen was a director of Deqing Tianqin Accountants' Firm Company Limited* (德清天勤會計師事務所有限責任公司). From April 2007 to March 2011, Mr. Shen was the executive director and the general manager of Huzhou Tianqin Assets Appraisal Company Limited* (湖州天勤資產評估有限公司). From June 2008 to May 2014, he was appointed as an independent non-executive director of Shenghua Biok Biology. Since April 2011 till present, Mr. Shen is the general manager and the vice-chairman of the board of Zuo Li Group Holdings Company Limited* (佐力控股集團有限公司). Since October 2007 to September 2018, Mr. Shen was a director of Zhejiang Top Medicine Co., Ltd. (浙江拓普藥業股份有限公司), a company listed on National Equities Exchange and Quotations (stock code: 837631). Mr. Shen is a senior accountant (高級會計師) awarded by the Review Committee of Senior Accountant Qualification of Zhejiang Province* (浙江省高級會計師資格評審委員會). He is also a certified tax agent of Zhejiang Province (浙江省註冊税務師). Mr. Shen joined the Company and has been appointed as an independent non-executive Director since May 2017.

SUPERVISORS

Shareholder Representative Supervisors

Mr. Chen Jian (陳劍), aged 35, is the chairman of the supervisory committee (the "**Supervisory Committee**") of the Company. Mr. Chen graduated from University of Science and Technology of China (中國科學技術大學) majoring in finance and obtained a bachelor's degree in economics in July 2005. From May 2006 to July 2012, Mr. Chen was the head of the account department of Shenghua Qiang Ci Materials. Since August 2012 till December 2017, Mr. Chen was appointed as the head of the audit and supervision department of Shenghua Group Holdings. Since January 2018 till present, Mr. Chen has been appointed as the assistant to general manager and the financial controller of Zhejiang Shenghua Yunfeng New Materials Co., Ltd.* (浙江升華雲鋒新材股份有限公司). Mr. Chen joined the Company and has been appointed as a Supervisor since May 2017.

Mr. Yu Hui (俞匯), aged 30, graduated from Zhejiang Gongshang University (浙江工商大學) majoring in financial management and obtained a bachelor's degree in management in June 2011. Mr. Yu is a certified public accountant of the PRC. From September 2011 to March 2013, Mr. Yu was a senior auditor of BDO China Shu Lun Pan CPAs (立信會計師事務所). Since April 2014 till June 2018, Mr. Yu was appointed as the security investment specialist of the strategic investment department of Shenghua Group Holdings. From June 2018 till present, Mr. Yu has been the project partner of Zhongxingcai Guanghua Certified Public Accountants LLP, Zhejiang Branch (中興財光華會計師事務所(特殊普通合夥)浙江分所). Mr. Yu joined the Company and has been appointed as a Supervisor since May 2017.

Employee Representative Supervisor

Ms. Yao Yajuan (姚婭娟), aged 37, is the manager of the general administration department of the Company. Ms. Yao graduated from Chongqing University (重慶大學) and obtained a bachelor's degree in accounting in January 2011 through an online course. In May 2005, Ms. Yao started working at Shenghua Estate and was appointed as the operating manager in February 2011. Ms. Yao joined the Company since March 2017 and has been appointed as a Supervisor since May 2017.

SENIOR MANAGEMENT

Mr. Qi Jinsong (戚金松) (formerly Mr. Qi Jinsong (戚金嵩)), aged 54, is the Chairman and the Chief Executive Officer. Mr. Qi completed a two-year online professional course for economics offered by China University of Geosciences (Wuhan) (中國地質大學(武漢)) in April 2005. Mr. Qi was appointed as the general manager and the president of the board of Zhejiang Shenghua Qiang Ci Materials from January 2009 to February 2012. From February 2012 to April 2013, he was the deputy general manager and later the general manager of Shenghua Estate. From April 2013 to July 2013, he was appointed as the deputy general manager of Shenghua Biok Biology. From July 2013 to June 2014, he was the deputy general manager of Meidu Group. Mr. Qi was appointed as the executive vice president (from June 2014 to July 2016) and the director (from May 2015 to July 2016) of Meidu Energy. Mr. Qi joined the Company since February 2017.

Mr. Guan Zilong (管子龍), aged 30, is the financial controller of the Company. Mr. Guan graduated from China Jiliang College* (中國計量學院) (currently known as China Jiliang University (中國計量大學)) and obtained a bachelor degree in management majoring in financial management in June 2011. Mr. Guan is a non-practising member (非執業會員) of Zhejiang Institute of Certified Public Accountants (浙江省註冊會計所師協會). Between July 2011 and May 2016, he was with Pan-China Certified Public Accountants LLP* (天健會計師事務所(特殊普通合夥)) and mainly handled annual audit works for listed companies and initial public offering works for proposed listing applicants. Mr. Guan joined the Company since June 2016.

Mr. Xu Jianfeng（徐劍鋒）, aged 32, is the secretary of the Board and the Authorised Representative. Mr. Xu graduated from Jiangxi University of Finance and Economics（江西財經大學）majoring in tourism management and finance (second degree) in July 2009 and obtained a bachelor's degree in management and a bachelor's degree in economics. Since July 2009 till May 2017, Mr. Xu has been appointed as the secretary to the president（總裁秘書）of Shenghua Group Holdings. Mr. Xu joined the Company since May 2017.

Mr. Zhang Xuguang（張旭光）, aged 61, is the chairman of the board of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Zhang graduated from Zhejiang University（浙江大學）majoring in information and electronic engineering. Mr. Zhang had been the chairman of the board and the general manager of Hangzhou New Century Technology Development Co., Ltd.*（杭州新世紀科技發展有限公司）, the president of Zhejiang Insigma Software Industry Group Co., Ltd.*（浙江浙大網新軟件產業集團有限公司）and the general manager of Zhejiang Insigma Increator Technology Co., Ltd.*（浙江網新創建科技有限公司）. Mr. Zhang had also been employed as an informatisation expert advisor to many city governments such as Hangzhou City, Tieling City and Jiangyin City. Mr. Zhang has over twenty years of research and development and operation management experience in the field of information technology and was named as the Zhejiang Province Software Industry Outstanding Entrepreneurs（浙江省軟件行業優秀企業家）and the Zhejiang Province Top Ten "Twelve-Five" New Urbanisation Figure（浙江省「十二五」新型城市化十大人物）. Various researches and engineering projects held by Mr. Zhang had won the Technological Advancement First Grade Award of Zhejiang Province（浙江省科技進步一等獎）, the National Golden Card Engineering Innovation Award（國家金卡工程自主創新獎）, Best Software Platform Award（最佳軟件平台獎）, the Best Software Development Award（最佳軟件開發獎）, the Excellence Award of Software Products and Solutions of China Software Association（中國軟件協會優秀軟件產品與解決方案獎）, and the Technological Advancement Award of General Logistics Department of the People's Liberation Army（解放軍總後勤部科技進步獎）, and etc.. The Hangzhou Citizen Card Engineering Project（杭州市民卡工程）designed by Mr. Zhang obtained the Best Application Results Award of National Golden Card Project（國家金卡工程優秀應用成果獎）. Mr. Zhang joined the Group since February 2018.

Mr. Wu Benlin（吳本林）, aged 44, is the president of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Wu graduated from He Fei University of Technology（合肥工業大學）with a bachelor's degree in communication engineering. Mr. Wu has devoted to the development of computer software application system, especially the development of its application in areas such as social security, city card（城市一卡通）, smart city based on J2EE structure, and has extensive experience in the field of city informatisation and smart city. Mr. Wu was awarded with the Technological Advancement Award of Zhejiang Province（浙江省科技進步一等獎）in 2008, the qualification certifications of Information System Project Management Professional（信息系统項目管理師）, OCP, Microsoft Senior Project Management Training（高級項目經理培訓）and Senior Software Development Supervisor Training Program（高級軟件研發主管研修計劃）and honoured with the qualification such as IBM Certified Structuralist（認證架構師）. Mr. Wu joined the Group since February 2018.

Mr. Luo An（羅安）, aged 55, is the vice president of the Company. Mr. Luo is an engineer and the general manager of Hangzhou Huaguang Computer Engineering Co., Ltd.*（杭州華光計算機工程有限公司）, a wholly-owned subsidiary of the Company. Mr. Luo is a graduate of master in software computing and theoretical science of Zhejiang University（浙江大學）. Mr. Luo had worked at management positions in Zhejiang Tian Cheng Group High-Tech Development Company*（浙江天昌集團高科技開發公司）and Huzhou Jun Pu Computer Company*（湖州軍普電腦公司）, respectively. Mr. Luo has over twenty years of management experience in the field of information technology. Mr. Luo joined the Company since September 2009.

Mr. Gao Zhan（高瞻）, aged 48, is the vice president of the Company and the general manager of Zhejiang Lan Chuang Communication Co., Ltd.*（浙江蘭創通信有限公司）, a 85% owned subsidiary of the Company. Mr. Gao graduated from the Department of Electronic Engineering of Hangzhou Institute of Electronic（杭州電子工業學院）with a bachelor's degree in radio technology. Mr. Gao has been in the areas of data service and telecommunication value-added service for many years and has extensive experiences in planning, operation, management and market operation of broadband data service and value-added business. Mr. Gao joined the Company since April 2005.

Mr. Fork Siu Lun Tommy（霍兆麟）, aged 56, is the company secretary (the "**Company Secretary**") of the Company and the Authorised Representative. Mr. Fork graduated from the University of Hong Kong with a bachelor's degree in science in November 1984. He has been a member of the Hong Kong Institute of Certified Public Accountants since September 1987 and a fellow member of The Chartered Association of Certified Accountants since October 1992. Mr. Fork joined the Company since May 2017.

* *For identification purposes only*

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group recognises the importance of achieving and monitoring high standard of corporate governance in realising the needs and the requirements of its business and the best interest of all Shareholders. The Group is fully committed to doing so. Throughout the year ended 31 December 2018, the Company has adopted and complied with the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules, except for the deviation from CG Code Provision A.2.1 as explained below. The Board will continue to review regularly and take appropriate actions to comply with the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2018. Having made specific enquiry with all Directors, the Company confirmed that all Directors had complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

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

Executive Directors

Mr. Qi Jinsong
Mr. Chen Ping
Mr. Guan Zilong
Mr. Xu Jianfeng

Independent Non-Executive Directors

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

The biographical details of the Directors are set out on pages 12 to 14 of this annual report.

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

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

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

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

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

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

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

Pursuant to the CG Code, the Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board is made with thorough and necessary information. The Company provides introduction and information to newly appointed Directors on their legal and other responsibilities as directors and their functions. As part of an ongoing process of directors' training, the Directors are updated with latest developments regarding the GEM Listing Rules and other applicable regulatory requirements from time to time to ensure compliance of the same by all Directors. All Directors are encouraged to attend external and internal forum or training courses on relevant topics which may count towards continuous professional development training. The Company has devised a training record to assist the Directors to record the training they have undertaken. During the year, all Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

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

	Meetings attended				
Director	**Board**	**Audit committee**	**Remuneration committee**	**Nomination committee**	**Shareholders**
Executive Directors					
Mr. Qi Jinsong	8/8	–	1/1	1/1	2/2
Mr. Chen Ping (Note 1)	7/8	–	–	–	0/2
Mr. Guan Zilong	8/8	–	–	–	2/2
Mr. Xu Jianfeng	8/8	–	–	–	2/2
Independent Non-Executive Directors					
Mr. Cai Jiamei (Note 2)	7/8	4/4	1/1	1/1	1/2
Ms. Huang Lianxi	8/8	4/4	–	1/1	1/2
Mr. Shen Haiying	8/8	4/4	1/1	–	2/2

Notes:

(1) During the year, Mr. Chen Ping appointed his alternate to attend one of the Board meetings on his behalf.

(2) During the year, Mr. Cai Jiamei appointed his alternate to attend one of the Board meetings on his behalf.

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

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

Appointment and re-election of Directors need to be approved by meetings of the Shareholders. The term of each Director is three years and can be re-elected in succession. According to the stipulations of its articles of association (the "**Articles of Association**"), the Company cannot terminate the office of a Director without course.

The resignation and termination of a Director should need reasonable explanation. The Articles of Association stipulates that the terms of all Directors are three years and can continue to hold office when re-elected. Any Director to be appointed for replacing in vacancy must be thereafter elected in the following meeting of the Shareholders. The Company does not require the rotation of Directors in three years. Instead, Directors are re-elected by meeting of the Shareholders upon the expiry of their three years terms, and can be re-appointed.

BOARD COMMITTEES

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

- **Audit Committee**

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

  The primary duties of the Audit Committee are to review the Company's annual report, consolidated financial statements and audited annual results, half-yearly report and quarterly reports and to advise and comment thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the financial reporting process and risk management and internal control systems of the Group. In the course of doing so, the Audit Committee has had detailed discussions with the management and the external auditor during the year ended 31 December 2018. The Audit Committee has reviewed, among other things, the audited financial results and annual report of the Group for the year ended 31 December 2018.

- **Remuneration Committee**

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

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

- **Nomination Committee**

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

  The responsibilities of the Nomination Committee include reviewing the structure, size, composition and diversity of the Board; identifying individuals, in accordance with the Board diversity and nomination policy of the Company, suitably qualified to become members of the Board and selecting or making recommendations to the Board on selection of individual nominated for directorships; assessing the independence of the independent non-executive Directors; making recommendations to the Board on the appointment or reappointment of the Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer; setting out relevant information in the general meeting circular and/or documents relating to any proposed resolution to elect an independent non-executive Director at the general meeting; and determining the policy for nomination of the Directors, which involving the consideration on the past performance, the qualification and the general market conditions in selecting and recommending prospective candidates for directorship.

CORPORATE GOVERNANCE FUNCTION

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

RISK MANAGEMENT AND INTERNAL CONTROI

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

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

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

The Board has employed an ongoing process to review the effectiveness of the risk management and internal control systems, which consists mainly of enquiry; discussion; and validation through observation and inspection. During the reporting year, the Board held one meeting to appraise the validity of the Group's risk management and internal control systems in an all-round way, with Supervisors and part of the senior executives seated in the meeting. The Board's annual review for the year ended 31 December 2018 as aforementioned has satisfactorily covered the adequacy of resources, qualifications and experience, training programs and budget of the Group's accounting and financial reporting functions. The Board was of the view that the risk management and internal control systems were effective and adequate; and there were no irregularities, improprieties, fraud or other deficiencies that suggested material deficiency in the Group's the risk management and internal control systems.

The Board has established an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems.

FINANCIAL REPORTING

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

AUDITOR'S REMUNERATION

During the year, the Group incurred approximately RMB628,000 (2017: RMB511,000) for remunerations in respect of audit services provided by the Company's auditor.

COMPANY SECRETARY

Mr. Fork Siu Lun Tommy is the Company Secretary and he is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants. He reports to the Board and assists the Board in functioning effectively and efficiently. During the year, Mr. Fork undertook not less than fifteen hours of professional training to update his skill and knowledge.

CHANGE IN THE ARTICLES OF ASSOCIATION

Pursuant to the special resolution passed by the Shareholders at their annual general meeting held on 22 June 2018, the Articles of Association was amended to reflect, among others the actual conditions of the Company and to enhance the flexibility and efficiency in the operations of the Company. Details of the amendments to the Articles of Association were set out in the circular of the Company dated 7 May 2018.

INVESTOR RELATIONS

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

DIVIDEND POLICY

The Board has adopted a dividend policy (the "**Dividend Policy**") as set out below:

When the Board recommends or declares dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future business growth.

The Board has discretion to declare and distribute dividends to the Shareholders, subject to the Articles of Association and all applicable laws and regulations and the factors set out below.

The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends, including financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of the Shareholders, distributable profit and reserves, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and declared by the Board for a financial year or period as interim dividend, final dividend, and any distribution of dividend that the Board may deem appropriate.

The Company may declare and pay dividends by way of cash or scrip or cash combined stock or by other means that the Board considers appropriate.

Any declaration and payment of dividends will be subject to Shareholders' approval and in compliance with the law of the PRC and the Articles of Association.

The Board will review the Dividend Policy as appropriate from time to time, and there is no guarantee that any particular amount of dividends will be proposed or declared in any particular period in the future.

SHAREHOLDERS' RIGHTS

I. Convene an extraordinary general meeting and make proposals at general meetings

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

The written requisition signed by the Eligible Shareholders should be deposited at (i) the principal place of business of the Company in the PRC at 17/F., Deqing Shanghui Building, No. 70 Wulipai Road, Deqing County, Huzhou City, Zhejiang Province, the PRC for the attention of the secretary of the Board (for the holders of the domestic Shares); or (ii) the principal place of business of the Company in Hong Kong at Room 1505, 15/F., Fullerton Centre, 19 Hung To Road, KwunTong, Kowloon, Hong Kong for the attention of the Company Secretary (for the holders of the H Shares).

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

II. Send enquiries to the Board

Shareholders may send their enquiries and concerns to the Board to (i) the principal place of business of the Company in the PRC for the attention of the secretary of the Board (for the holders of the domestic Shares); or (ii) the principal place of business of the Company in Hong Kong for the attention of the Company Secretary (for the holders of the H Shares), at the addresses set out in the paragraph above. In addition, the Company's website provides fax number and telephone number by which enquiries may be put to the Board.

On behalf of the Board
Qi Jinsong
Chairman

15 March 2019
Huzhou City, the PRC

ENVIRONMENTAL, SOCIAL AND GOVERANCE REPORT

The Board is pleased to present the environmental and social responsibilities report of the Group for the year ended 31 December 2018, which covers the Company and its principal subsidiaries as set out in note 36 to the consolidated financial statements. The information on the governance aspect of the Group is set out in the section headed "Corporate Governance Report" on pages 16 to 21 of this annual report.

For the year ended 31 December 2018, the Group has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 20 to the GEM Listing Rules and the relevant information is set out below.

ENVIRONMENTAL

1. Emissions

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

2. Use of resources

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

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

	2018	2017
Paper consumption:	**approximately 247,000 pieces**	approximately 157,000 pieces
Energy consumption:	**approximately 211,000 kWh**	approximately 166,000 kWh

The paper and energy consumption of the Group for the year ended 31 December 2018 increased significantly when compared with that of the previous year, which was mainly attributable to the expansion of the Group after the completion of the Increator Technology Acquisition in February 2018.

3. The environment and national resources

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

SOCIAL

1. Employment and labour practices

(i) Employment

The Group considers that employees are valuable assets of the Group and is committed to building an amicable and rewarding relationship with its employees. The Group has also actively effected the bonding and lubrication role of the union between the employees and the company.

Employees were remunerated with salary packages commensurate with their job nature, qualification, experience and performance. A brief description of the Group's remuneration policy is set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 11 of this annual report.

(ii) Working conditions, health and safety

The Group also worked its best to cultivate a harmonious workplace, provided free physical health check-ups for employees and bought accidental and health insurance for employees. In addition, the Group strived to provide a safe and healthy work environment which enhances employee performance and company-employee relationship. During the year under review, no serious work-related injuries on staffs were resulted from the Group's operation (2017: Nil).

(iii) Development and training

Training is provided to employees to enhance job performance and progression within the Group. A brief description of the Group's staff development and training policy is set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 11 of this annual report.

(iv) Labour standards

During the year under review, the Group has complied with labour laws and other related government regulations in the PRC. The Group had not employed staff who are below eighteen years of age. No employee has been paid less than the minimum wage or had been required to work over the maximum working hour specified by the government regulations. Details of the retirement benefit schemes of the Group are set out in note 34 to the consolidated financial statements.

2. Operating practices

(i) Supply chain management

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

(ii) Product responsibility

The Group is principally engaged in the provision of telecommunication solutions, the trading of hardware and computer software, the provision of telecommunication value-added services, the provision of smart city solutions, the provision of e-commerce supply chain services and investment holding. As such, the Group does not have significant impacts in relation to product responsibility. During the year under review, the Group has not been involved in any significant claims or litigations relating to its business, operation and products (2017: Nil).

(iii) Anti-corruption

The Group commits to maintain a high standard of business ethics and has implemented policies and practices to prohibiting bribery and corruption. During the year under review, no bribery or corruption cases were reported relating to the business and operation of the Group (2017: Nil).

(iv) Community

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

On behalf of the Board
Qi Jinsong
Chairman

15 March 2019
Huzhou City, the PRC

REPORT OF THE DIRECTORS

The Board is pleased to present its annual report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of telecommunication solutions, the trading of hardware and computer software and investment holding. The businesses of the Company's principal subsidiaries are set out in note 36 to the consolidated financial statements.

An analysis of the Group's revenue and profit before tax for the year on business segment activities basis has been set out in note 8 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 has been set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on page 3 and pages 4 to 11 of this annual report, respectively.

RESULTS AND APPROPRIATIONS

The Group's results for each of two years ended 31 December 2018 and its state of affairs as at 31 December 2018 and 2017 are set out in the consolidated financial statements on pages 35 to 93 of this annual report.

The Board does not recommend the payment of a final dividend and other appropriations for the year (2017: Nil).

RESERVES AVAILABLE FOR DISTRIBUTION

At 31 December 2018, the Group did not have reserves available for distribution to owners of the Company (2017: Nil).

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during each of two years ended 31 December 2018 are set out in note 15 to the consolidated financial statements.

BORROWING

Details of the Group's bank borrowing at the end of each of two years ended 31 December 2018 are set out in note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital at the end of each of two years ended 31 December 2018 are set out in note 28 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the each of two years ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 37 of this annual report.

RETIREMENT PLAN

Details of the retirement benefit schemes of the Group are set out in note 34 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 36.10% (2017: 81.76%) of the Group's revenue and the largest customer of the Group accounted for approximately 23.86% (2017: 72.26%) of the Group's revenue for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 66.93% (2017: 86.60%) of the Group's direct purchases and the largest supplier of the Group accounted for approximately 23.61% (2017; 58.81%) of the Group's direct purchases for the year.

For the year ended 31 December 2017, to the knowledge of the Directors, included in the Group's five largest customers were Shanghai Xiao Tong Networking Technology CO. LTD *（上海曉通網絡技術有限公司）("**Shanghai Xiao Tong**"), Guangzhou Xiao Tong Networking Technology CO. LTD*（廣州市曉通網絡科技有限公司）("**Guangzhou Xiao Tong**") and Beijing Xiao Tong Hong Zhi Technology Co., Ltd.*（北京曉通宏志有限公司）("**Beijing Hong Zhi**"). Shanghai Xiao Tong, Guangzhou Xiao Tong and Beijing Hong Zhi were wholly-owned subsidiaries of Xiao Tong Networking Technology CO. LTD*（北京曉通網絡科技有限公司）("**Beijing Xiao Tong**"). Insigma Technology Co., Ltd.*（浙大網新科技股份有限公司）, the substantial Shareholder up to 20 January 2017, in turn, held 19% minority interest (a non-controlling interest) in Beijing Xiao Tong. Save as disclosed above, none of the Directors, their respective associates, or any Shareholders, which to the knowledge of the Directors own more than 5% of the Company's issued share capital, had any interest in any of the five largest customers and five largest suppliers of the Group for each of the two years ended 31 December 2018.

FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2018 and the Group's assets and liabilities as at 31 December 2014, 2015, 2016, 2017 and 2018 is set out on page 94 of this annual report.

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Qi Jinsong
Mr. Chen Ping
Mr. Guan Zilong
Mr. Xu Jianfeng

Independent Non-Executive Directors

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

Supervisors

Mr. Chen Jian
Mr. Yu Hui
Ms. Yao Yajuan

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each Director and Supervisor has entered into a three-year service agreement with the Company expiring on 7 May 2020. All appointments are subject to termination in certain circumstances as stipulated in the relevant service agreement.

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, the Supervisors and the senior management of the Group are set out on pages 12 to 15 of this annual report.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

The Group has adopted an emolument policy as set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 4 to 11 of this annual report. The Directors', the Supervisors' and the senior management's emoluments are determined by the Board with reference to their duties, responsibilities, performance and recommendations by the Remuneration Committee.

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

DIRECTORS' SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 2018, none of the Directors, the Supervisors or the Company's chief executives had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future ordinance (the "**SFO**")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange:

Long position in Shares

Name	Capacity and nature of interest	Number of Shares held	Percentage of beneficial interests in the Company's share capital
Director and Vice Chairman			
Mr. Chen Ping	Beneficial owner	27,294,240 domestic Shares	5.39%

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

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

During the year ended 31 December 2018, none of the Directors, the Supervisors or the Company's chief executives was granted options to subscribe for the Shares (2017: Nil). As at 31 December 2018, none of the Directors, the Supervisors or the Company's chief executives or any of their spouses and children under eighteen years of age had any interest in, or had been granted any interest in, or had been granted, or exercised, had any rights to subscribe for the Shares (or warrants or debentures, if applicable) or to acquire the Shares (2017: Nil).

COMPETING INTERESTS

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

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, Supervisors or the Company's chief executives, as at 31 December 2018, there were no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company; or who were Shareholders as recorded in the register maintained under section 336 of the SFO:

Long position in shares

Name	Capacity and nature of interest	Number of Shares held	Percentage of beneficial interests in the Company's share capital
Zhejiang Shenghua Holdings Group Company Limited* (浙江升華控股集團有限公司) ("**Zhejiang Shenghua**")	Beneficial owner and interest of a controlled corporation	217,126,930 domestic Shares (Note 1) and 49,000,000 H Shares (Note 2)	52.54%
Rise Sea Limited ("**Rise Sea**")	Benefical owner	49,000,000 H Shares (Note 2)	9.67%
Deqing Huisheng Investment Company Limited* (德清匯升投資限公司) ("**Deqing Huisheng**")	Interest of a controlled corporation	217,126,930 domestic Shares (Note 1) and 49,000,000 H Shares (Note 2)	52.54%
Mr. Xia Shilin	Interest of a controlled corporation	217,126,930 domestic Shares (Note 1) and 49,000,000 H Shares (Note 2)	52.54%
Ms. Qian Xiaomei	Interest of spouse	217,126,930 domestic Shares and 49,000,000 H Shares (Note 3)	52.54%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
Other persons			
Mr. Wong Nga Chi	Beneficial owner	47,000,000 H Shares	9.28%
Ms. Yin Cailian	Interest of spouse	47,000,000 H Shares (Note 4)	9.28%
Ms. Ko Chiu Yu	Beneficial owner	36,500,000 H Shares	7.21%
Mr. Fong For	Beneficial owner	16,560,000 H Shares	3.27%

Notes:

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

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

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

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

RELATED AND CONNECTED PARTY TRANSACTIONS

Except otherwise disclosed in note 33 to the consolidated financial statements, the Group had no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules during each of the two years ended 31 December 2018.

SHARE OPTION SCHEME

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

COMPLIANCE OFFICER AND COMPANY SECREATARY

Mr. Chen Ping is the compliance officer of the Company. Mr. Fork Siu Lun Tommy is the company secretary of the Company and he is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2018 (2017: Nil).

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Company established the Audit Committee in November 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The primary duties of the Audit Committee are to review the Group's annual report and consolidated financial statements, audited annual results, half-year report and quarterly reports and provide advice and comments thereon to the Board and to review and to provide supervision over the financial reporting process and internal control system of the Group. The current Audit Committee comprises three independent non-executive Directors, Mr. Shen Haiying, Mr.Cai Jiamei and Ms. Huang Lianxi, whereas Mr. Shen Haiying is the chairman. During the year, the Audit Committee reviewed the first quarterly report, the half-year report, the third quarterly report of the Group for the year 2018 and the annual report of the Group for the year 2017. The Audit Committee also has reviewed the annual report of the Group for the year 2018.

AUDITOR

During the year, SHINEWING (HK) CPA Limited was re-appointed as auditor of the Company. The consolidated financial statements of the Group for each of the three years ended 31 December 2018 were audited by SHINEWING (HK) CPA Limited.

On behalf of the Board
Qi Jinsong
Chairman

15 March 2019
Huzhou City, the PRC

* *For identification purposes only*

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is pleased to present its annual report for the year ended 31 December 2018.

SUPERVISORY COMMITTEE OPERATION REVIEW

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

FINANCIAL POSITION OF THE GROUP

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

ETHICS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

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

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

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

15 March 2019
Huzhou City, the PRC

INDEPENDENT AUDITOR'S REPORT

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

TO THE MEMBERS OF SHENGHUA LANDE SCITECH LIMITED
浙江升華蘭德科技股份有限公司
(established as a joint stock limited company in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Shenghua Lande Scitech Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 35 to 93, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (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 these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. This 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 those matters.

KEY AUDIT MATTERS (Continued)

Impairment assessment of trade receivables

Refer to note 19 to the consolidated financial statements and the accounting policies on pages 53 to 55.

The key audit matter

As at 31 December 2018, the Group had trade receivables of approximately RMB31,283,000 representing 23% of the Group's total current assets. Expected credit loss model using the provision matrix has been adopted for estimating the impairment loss on trade receivables, which involved significant management judgement on the key inputs and assumptions including the historical loss rates and forward-looking information taking into account both current and forecast general economic conditions.

We have identified the impairment assessment of trade receivables as a key audit matter because the loss allowance involves significant degree of management estimation.

How the matter was addressed in our audit

Our procedures were designed to review the management's process of determination of historical loss rates and forward-looking information in assessing the loss allowance and challenge the reasonableness of the methods and assumptions used to estimate the loss allowance.

We have assessed, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing category by comparing individual items in the report with the relevant sales invoices; tested the accuracy of the historical default data by evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and tested the subsequent settlements of trade receivables as at 31 December 2018.

Impairment of goodwill

Refer to note 17 to the consolidated financial statements and the accounting policies on page 44.

The key audit matter

In February 2018, the Group acquired 100% equity interest in Increator Technology Co. Ltd, a company incorporated in the People's Republic of China, at a consideration of RMB25,200,000. As the result of such acquisition, goodwill of approximately RMB1,856,000 was recognised.

The impairment assessment on the goodwill is identified as a key audit matter as it involved judgemental process which requires estimates concerning the methods and assumptions to be applied in determining the recoverable amount using value-in-use calculation. The selection of valuation model, adoption of key assumptions and input data including the revenue growth rate and discount rate may be subject to management bias and changes in these assumptions and input to valuation model may result in significant financial impact.

How the matter was addressed in our audit

Our audit procedures were designed to review the management's assessment of the recoverable amount and to challenge the reasonableness of the methods and assumptions used to calculate the recoverable amount of the subsidiary as a single cash-generating unit.

We have assessed the valuation methodology and compared significant inputs to historical financial performance of such subsidiary and external information. We have assessed the reasonableness of the assumptions and key input data adopted by the management against available information.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

(Continued)

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

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

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

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

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

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

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

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

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

Hong Kong
15 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	**217,107**	173,076
Cost of sales		**(179,305)**	(159,556)
Gross profit		**37,802**	13,520
Other operating income, gains or losses		**3,564**	2,690
Distribution and selling expenses		**(9,129)**	(7,180)
General and administrative expenses		**(19,102)**	(15,216)
Research and development expenditure		**(4,700)**	–
Finance cost		**(212)**	–
Profit (loss) before tax		**8,223**	(6,186)
Income tax (expense) credit	11	**(286)**	1,615
Profit (loss) and total comprehensive income (expense) for the year	12	**7,937**	(4,571)
Profit (loss) and total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**8,393**	(4,392)
Non-controlling interests		**(456)**	(179)
		7,937	(4,571)
Earnings (loss) per share			
Basic and diluted (RMB)	14	**1.66 cents**	(0.87) cents

CONSOLIDATED STATMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Plant and equipment	15	**1,088**	1,094
Intangible assets	16	**1,225**	–
Deferred tax assets	27	**264**	–
Goodwill	17	**1,856**	–
Other receivables	20	**1,844**	–
		6,277	1,094
Current assets			
Inventories	18	**9,100**	3,143
Trade receivables	19	**31,283**	43,370
Prepayments and other receivables	20	**29,243**	6,361
Contract assets	21	**1,583**	–
Financial assets at fair value through profit or loss	22	**27,300**	–
Bank balances and cash	23	**35,172**	48,582
		133,681	101,456
Current liabilities			
Trade and other payables	24	**21,508**	4,753
Contract liabilities/receipt in advance from customers	25	**3,303**	557
Bank borrowing	26	**10,000**	–
Income tax payable		**56**	–
		34,867	5,310
Net current assets		**98,814**	96,146
Net assets		**105,091**	97,240
Capital and reserves			
Paid-in capital	28	**50,655**	50,655
Reserves	29	**52,223**	43,830
Equity attributable to owners of the Company		**102,878**	94,485
Non-controlling interests		**2,213**	2,755
Total equity		**105,091**	97,240

The consolidated financial statements on pages 35 to 93 were approved and authorised for issue by the board of directors on 15 March 2019 and are signed on its behalf by:

Mr. QI Jinsong
Director

Mr. GUAN Zilong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Paid-in capital RMB'000	**Share premium** RMB'000	**Statutory surplus reserve** RMB'000 (Note 29)	**Accumulated losses** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
At 1 January 2017	50,655	101,336	10,567	(63,681)	98,877	2,934	101,811
Loss and total comprehensive expense for the year	–	–	–	(4,392)	(4,392)	(179)	(4,571)
At 31 December 2017 and at 1 January 2018	50,655	101,336	10,567	(68,073)	94,485	2,755	97,240
Profit (loss) and total comprehensive income (expense) for the year	–	–	–	8,393	8,393	(456)	7,937
Deregistration of a subsidiary	–	–	(39)	39	–	(86)	(86)
Transfer to statutory reserve	–	–	987	(987)	–	–	–
At 31 December 2018	50,655	101,336	11,515	(60,628)	102,878	2,213	105,091

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**8,223**	(6,186)
Adjustments for:		
Amortisation of intangible assets	**1,100**	–
Written off of other payables	**(100)**	(3,971)
Government grant	**(687)**	(87)
Interest income from banks	**(501)**	(203)
Other interest income	**(267)**	–
Finance cost	**212**	–
Depreciation of plant and equipment	**670**	568
Loss on written off of plant and equipment	**13**	54
Loss on disposal of plant and equipment	**–**	16
Gain on disposal of an intangible asset	**(712)**	–
Impairment loss/written off of other receivables	**24**	715
Impairment loss on inventories	**–**	6
Impairment loss on trade receivables	**367**	432
Reversal on provision of trade receivables	**(388)**	–
Operating cash flows before movements in working capital	**7,954**	(8,656)
Increase in inventories	**(5,957)**	(1,288)
Decrease in trade receivables	**16,825**	13,333
Increase in prepayments and other receivables	**(19,199)**	(3,879)
Increase in contract assets	**(733)**	–
Increase (decrease) in trade and other payables	**6,282**	(25)
Increase in contract liabilities/receipt in advance from customers	**1,942**	378
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**7,114**	(137)

	Note	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Net cash outflow from acquisition of a subsidiary	31	**(23,400)**	–
Interest received		**768**	203
Purchases of financial assets at fair value through profit or loss		**(7,800)**	–
Proceeds from disposal of plant and equipment		**–**	1
Purchase of plant and equipment		**(481)**	(960)
NET CASH USED IN INVESTING ACTIVITIES		**(30,913)**	(756)
FINANCING ACTIVITIES			
Government grant received		**687**	87
New borrowing raised		**10,000**	–
Distribution to non-controlling interests		**(86)**	–
Interest paid		**(212)**	–
NET CASH FROM FINANCING ACTIVITIES		**10,389**	87
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(13,410)**	(806)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**48,582**	49,388
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**35,172**	48,582

1. GENERAL

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

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

The Company is principally engaged in the provision of telecommunication solutions, trading of hardware and computer software and investment holding. The principal activities of its subsidiaries are set out in note 36.

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

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

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property
IFRIC interpretation 22	Foreign Currency Transactions and Advance Consideration

The impacts of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been summerised below. The application of other new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 superseded IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that have not yet been completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of accumulated losses, or other component of equity, as appropriate and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and related interpretations.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below.

The impact of transition to IFRS 15 was insignificant to the Group's accumulated losses at 1 January 2018.

The adoption of IFRS 15 did not have material impact on the Group's consolidated statement of financial position at 1 January 2018 except that "receipt in advance from customers" of approximately RMB557,000 is renamed as "contract liabilities" using the terminology under IFRS 15.

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

IFRS 15 Revenue from Contracts with Customers (Continued)

Impact on the consolidated statement of financial position at 31 December 2018 is as follows:

	As reported as at 31 December 2018 RMB'000	Impact of adopting IFRS 15 Reclassification RMB'000	Amount excluding impact of adopting IFRS 15 as at 31 December 2018 RMB'000
Trade and retention receivables	–	(32,866)	32,866
Trade receivables	31,283	31,283	–
Contract assets	1,583	1,583	–
Contract liabilities	(3,303)	(3,303)	–
Receipt in advance from customers	–	3,303	(3,303)

The adoption of IFRS 15 did not have material impact on the Group's result as well as operating, investing and financing cash flows for the current year.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application, if any, are recognised in accumulated losses as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3 below.

Classification and measurement of financial instruments

The directors of the Company (the "Directors") reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of IFRS 9 continued to be measured at amortised cost as were previously measured under IAS 39.

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss (the "ECL") approach. As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9.

It is concluded that, as at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings as the estimated allowance under the ECL model were not significantly different to the impairment losses previously recognised under IAS 39.

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

New and revised IFRSs issued but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[1]
Amendments to IFRS 3	Definition of a Business[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2021.
5 Effective date not yet been determined.

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

IFRS 16 Leases

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

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

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

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

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

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

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

IFRS 16 Leases (Continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB3,226,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The Directors are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under IFRS 16. The Directors expect that the adoption of IFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities. The Group plans to adopt IFRS 16 using the modified retrospective approach and recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

Business combinations

Businesses combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Policy applicable to the year ended 31 December 2018 (with application of IFRS 15)

Revenue is recognised 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 Group uses 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.

The Group recognised 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 customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Policy applicable to the year ended 31 December 2018 (with application of IFRS 15) (Continued)

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from the following major sources:

- Trading of hardware and computer software
- Provision of telecommunication value-added services
- Provision of smart city solutions
- Provision of e-commerce supply chain services

(i) Trading of hardware and computer software

Revenue is recognised at a point in time when the control of goods is transferred to the customers, generally on delivery of goods to the customer's specified location, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits from these products.

Advance payment from customers on revenue recognition is recognised as contract liabilities in the consolidated statement of financial position.

(ii) Provision of telecommunication value-added services

The performance obligation of provision of telecommunication value-added services, such as business cards sharing and precise marketing through telecommunication channel, is satisfied at a point in time. Revenue from the service rendered is recognised at a point in time when service rendered to the customers.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Policy applicable to the year ended 31 December 2018 (with application of IFRS 15) (Continued)

The Group recognised revenue from the following major sources: (Continued)

(iii) Provision of smart city solutions

Revenue from provision of smart city solutions is recognised over time.

The provision of smart city solutions included a comprehensive set of professional services namely system maintenance service, system enhancement service and software development, sourcing and system installation service.

For the system maintenance services, the customer simultaneously receives and consumes the benefits provided by the Group's performance. Revenue from provision of such services is recognised over time on a straight-line basis over the period of the service.

For the system enhancement services, the Group provides system upgrading and modification services to the customer's existing system. Revenue from provision of such services is recognised over time as the Group's performance creates or enhances an asset that the customer controls as the system is created and enhanced.

For the software development, sourcing and system installation services which are highly dependent on, or highly interrelated with, other promised goods or services in the contract, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Therefore, the Directors have satisfied that there is only one single performance obligation and the services are satisfied over time.

The progress towards complete satisfaction of a performance obligation is measured based on output method of which the Group has an enforceable right to payment on achievement of a specified milestone which is the value of service to be recognised under output method.

The Group's contracts with customers include payment schedules which require stage payments over the contract period once milestones are reached. The Group requires certain customers to provide upfront deposits ranging from 10% to 50% of total contract sum as part of its credit risk management policies and this has resulted in a contract liability at early stages. The Group also typically provides warranty to ensure that services performed comply with agreed-upon specifications for a specified period and, therefore agrees to a retention money of certain percentage of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing the warranty period.

(iv) Provision of e-commerce supply chain services

The provision of e-commerce supply chain services included supplying and trading of goods through e-commerce platforms owned and managed by third parties.

For certain transactions that are conducted under consignment arrangements, revenue is recognised at a point in time when the control of goods is transferred to end customers through e-commerce platforms.

For the remaining transactions, based on the terms of the agreements entered into between the customers, vendors and the Group, the Group does not obtain control of goods before the goods are sold to e-commerce platforms. As such, the Group recognises revenue in such arrangements on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Policy applicable to the year ended 31 December 2017

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

(i) Income from provision of telecommunication solutions

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

(ii) Income from trading of hardware and computer software

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(iii) Income from provision of telecommunication value-added services

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

(iv) Interest income

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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.

Retirement benefit costs

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

Short-term employee benefits

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

Current and deferred tax are recognised in profit or loss.

Plant and equipment

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

Depreciation is recognised so as to allocate the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

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

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

Internally-generated intangible assets-research and development expenditure

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 asset is measured on the same basis as intangible assets acquired separately.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives 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.

Inventories

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

Cash and cash equivalents

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

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

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 (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Under IFRS 9 (applicable on or after 1 January 2018)

Financial assets

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.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets at initial recognition. The Group's financial assets are classified as financial assets at amortised cost and financial assets at FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

Debt instruments that meet the following conditions (including trade receivables, other receivables and bank balances and cash) are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

Amortised cost and 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.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effectively interest method for debt instruments measured subsequently at amortised cost. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the “other operating income, gains or losses” line item.

Financial assets at FVTPL

The Group’s wealth management products are classified as financial assets at FVTPL as they do not meet the criteria for being measured at amortised cost or financial assets at fair value through other comprehensive income.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower; or
- a breach of contract, such as a default or past due event; or
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 36 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

Financial liabilities and equity instruments

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

Financial liabilities

Financial liabilities (including trade and other payables and bank borrowing) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under IFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Equity instruments

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

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Under IAS 39 (applicable before 1 January 2018)

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under IAS 39 (applicable before 1 January 2018) (Continued)

Financial assets (Continued)

Impairment loss on financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 180 days, and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Financial liabilities and equity instruments

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

Financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under IAS 39 (applicable before 1 January 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Equity instruments

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

Derecognition

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

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

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

Impairment losses on tangible and intangible assets (other than impairment of goodwill set out in accounting policy above)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

When measuring fair value, except for the net realisable value of inventories and value-in-use of plant and equipment, goodwill and intangible asset for the purpose of impairment assessment, 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

Impairment of goodwill and intangible asset

Determining whether goodwill and intangible asset are impaired requires an estimation of the recoverable amount of the CGU to which goodwill and intangible asset have been allocated. Recoverable amount is the higher of the value-in-use and fair value less cost of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill and intangible assets are approximately RMB1,856,000 and RMB1,225,000 respectively (2017: Nil and nil). No impairment loss has been recognised on goodwill and intangible assets during year ended 31 December 2018. Details of the recoverable amount calculation are disclosed in note 17.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of plant and equipment

The Group assesses whether there are any indicators of impairment for all plant and equipment at the end of each reporting period. Plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management may significantly affect the Group's impairment evaluation and hence results. As at 31 December 2018, the carrying amount of plant and equipment is RMB1,088,000 (2017: approximately RMB1,094,000), net of accumulated impairment losses of approximately RMB222,000 (2017: RMB222,000).

Provision of ECL for trade receivables

Starting from 1 January 2018, the Group uses a provision matrix to calculate the ECL for trade receivables. The provision rates are based on days past due as groupings of various debtors that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking information are considered. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018, the carrying amount of trade receivables was approximately RMB31,283,000 (2017: RMB43,370,000). Impairment loss of approximately RMB367,000 (2017: RMB432,000) has been recognised for the year ended 31 December 2018.

Allowance for inventories

The management of the Group reviews ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving inventory items identified. The management also estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions which involve judgement in respect of the expectation about the market condition and the future demand for such items in inventory. As at 31 December 2018, the carrying amount of inventories was approximately RMB9,100,000 (2017: RMB3,143,000), net of accumulated allowance of approximately RMB6,000 (2017: RMB6,000).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising paid in capital and reserves.

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

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost/loans and receivables (including bank balances and cash)	**74,714**	92,925
Financial assets mandatorily measured at FVTPL	**27,300**	–
	102,014	92,925
Financial liabilities		
At amortised cost	**31,508**	4,753

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, contract assets, other receivables, financial assets at FVTPL, bank balances and cash, trade and other payables and bank borrowing. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Currency risk

The Group's exposure to foreign currency risk relates principally to its bank balances, trade receivables, other receivables, contract assets and trade and other payables denominated in foreign currencies other than the functional currency of relevant group entity.

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

	Assets		Liabilities	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Hong Kong Dollar ("HKD")	**5,537**	25,509	**–**	–
United States Dollar ("USD")	**9,948**	–	**69**	–
Euro ("EUR")	**7,080**	–	**–**	–

The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective group entity's functional currency. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates.

A positive number below indicates an increase (2017: decrease) in post-tax profit (2017: post-tax loss) where the respective functional currencies of the group entity weaken 5% (2017: 5%) against the relevant foreign currencies. For a 5% (2017: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the profit (loss) for the year, and the balances below would be negative.

	2018	2017
	RMB'000	RMB'000
Impact on post-tax profit (loss) for the year		
HKD	**208**	957
USD	**370**	–
EUR	**266**	–

Interest rate risk

The Group's exposure to cash flow interest rate risk is through the impact of rate changes on interest-bearing financial assets. Interest bearing financial assets is mainly balances with banks which are all short-term in nature. The management monitors the movement in market interest rates and reviews such impact on the Group on a continuous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Group.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances and financial assets at FVTPL at the end of reporting period. The analysis is prepared assuming bank balances and financial assets at FVTPL outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point (2017: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit (2017: post-tax loss) for the year ended 31 December 2018 would increase/decrease (2017: decrease/increase) by approximately RMB234,000 (2017: approximately RMB182,000). This is mainly attributable to the Group's exposure to interest rates on bank balances.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

(ii) Credit risk

As at 31 December 2018 and 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.

The credit risk of the Group mainly arises from bank balances and cash, trade receivables, other receivables, contract assets and financial assets at FVTPL. The carrying amounts of these balances represent Group's maximum exposure to credit risk in relation to financial assets.

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. During the year ended 31 December 2018, the Group negotiated the payment term of an overdue balance with a trade debtor and charged interests on the overdue balance. The balance together with interests were subsequently fully recovered in 2018. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss.

Starting from 1 January 2018, for trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

(ii) Credit risk (Continued)

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is drawn from the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basic for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit-impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

As at 31 December 2018	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables	Note	Lifetime ECL (simplified approach)	31,815	(532)	31,283
Contract assets	Note	Lifetime ECL (simplified approach)	1,583	–	1,583
Other receivables	Performing	12-month ECL	6,676	–	6,676
Other receivables	Default	Lifetime ECL (credit-impaired)	24	(24)	–
				(556)	

Note: For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status. No loss allowance has been made on contract assets as the amount involved is insignificant.

6. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

(ii) Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The Group's concentration of credit risk by geographical location is solely in the PRC, which accounted for 100% of trade receivables as at 31 December 2018 and 2017. As at 31 December 2018, the Group had concentration of credit risk as 11% (2017: 92.9%) and 35% (2017: 98.3%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

While bank balances are also subject to impairment assessment under IFRS 9, no loss allowance is made as the credit risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(iii) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Directors are satisfied that the Group will be able to meet in full its financial obligations as and when fall due in the foreseeable future. The Group's contractual maturity for all its financial liabilities, based on the agreed repayment terms and the undiscounted cash flows on the earliest date the Group can be required to pay, is within one year. As at 31 December 2018, the aggregate undiscounted cash flows for bank borrowing amounted to RMB10,380,000. The undiscounted cash flows of other financial liabilities at amortised cost are the same as their carrying amounts at 31 December 2018.

c. Fair values of financial assets and financial liabilities

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

Financial assets at FVTPL	**Fair value hierarchy**	**Valuation techniques and key inputs**	**As at 31 December 2018 RMB'000**
Wealth management products	Level 3	Discounted cash flow method with estimated yield rate as the key input	**27,300**

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements as at 31 December 2018 and 2017 are not materially different from their fair values due to short maturities.

7. REVENUE

Revenue comprises income from trading of hardware and computer software, provision of telecommunication value-added services, provision of smart city solutions and provision of e-commerce supply chain services, net of discounts during the year.

	2018 **RMB'000**	2017* RMB'000
Trading of hardware and computer software	**166,303**	161,366
Provision of telecommunication value-added services	**10,271**	11,710
Provision of smart city solutions	**36,278**	–
Provision of e-commerce supply chain services	**4,255**	–
	217,107	173,076

* The amounts for the year ended 31 December 2017 were recognised under IAS 18.

Disaggregation of revenue by timing of recognition:

	2018 **RMB'000**
Timing of revenue recognition	
At a point in time	**180,829**
Over time	**36,278**
Total revenue from contracts with customers	**217,107**

As at 31 December 2018, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) is RMB22,344,000. The amount represents revenue expected to be recognised in the future from the provision of smart city solutions. The Group will recognise this revenue as the service is completed, which is expected to occur over the next 12-18 months.

8. SEGMENT INFORMATION

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

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

1. Provision of smart city solutions
2. Trading of hardware and computer software
3. Provision of e-commerce supply chain services
4. Provision of telecommunication value-added services
5. Provision of telecommunication solutions

Provision of smart city solutions was commenced during the year ended 31 December 2018 as a result of the acquisition of a subsidiary (Note 31). Therefore, a new segment in respect of provision of smart city solutions was disclosed in the current year.

In addition, provision of e-commerce supply chain services was commenced during the year ended 31 December 2018 as the Group diversified its operation during the year.

There were no segment revenue, segment result, segment assets or liabilities attributable to provision of telecommunication solution segment since 1 January 2017 and accordingly no segment information is presented.

(a) Segment revenue and results

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

	Provision of smart city solutions		Trading of hardware and computer software		Provision of e-commerce supply chain services		Provision of telecommunication value-added services		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue – external customers	**36,278**	–	**166,303**	161,366	**4,255**	–	**10,271**	11,710	**217,107**	173,076
Segment results	**9,146**	–	**4,247**	117	**913**	–	**433**	(1,341)	**14,739**	(1,224)
Unallocated other income, gains or losses									**2,225**	561
Unallocated expenses									**(8,741)**	(5,523)
Profit (loss) before tax									**8,223**	(6,186)

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

Segment profit (loss) represents the profit or loss from each segment without allocation of central administration costs, Directors' emoluments and certain other operating income, gains or losses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

8. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

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

	Provision of smart city solutions		Trading of hardware and computer software		Provision of e-commerce supply chain services		Provision of telecommunication value-added services		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
As at 31 December										
Segment assets	**24,035**	–	**40,875**	51,569	**4,739**	–	**188**	233	**69,837**	51,802
Unallocated assets									**70,121**	50,748
Total assets									**139,958**	102,550
Segment liabilities	**13,377**	–	**9,596**	2,439	**372**	–	**237**	32	**23,582**	2,471
Unallocated liabilities									**11,285**	2,839
Total liabilities									**34,867**	5,310

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

- all assets are allocated to reportable segments other than certain plant and equipment, bank balances and cash, financial assets at FVTPL, certain prepayments and other receivables and deferred tax assets which are unable to allocate to reportable segments; and
- all liabilities are allocated to reportable segments other than certain other payables, bank borrowing and income tax payable.

8. SEGMENT INFORMATION (Continued)

(c) Other segment information

	Provision of smart city solutions		Trading of hardware and computer software		Provision of e-commerce supply chain services		Provision of telecommunication value-added services		Unallocated		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts included in the measure of segment profit or loss or segment assets:												
Addition to plant and equipment	222	–	14	263	64	–	76	36	301	661	677	960
Addition to intangible assets	10,500	–	-	–	-	–	-	–	-	–	10,500	–
Impairment loss on inventories	-	–	-	6	-	–	-	–	-	–	-	6
Depreciation of plant and equipment	65	–	42	87	2	–	143	321	418	160	670	568
Amortisation of intangible assets	1,100	–	-	–	-	–	-	–	-	–	1,100	–
Gain on disposal of an intangible asset	(712)	–	-	–	-	–	-	–	-	–	(712)	–
Reversal on provision of trade receivables	-	–	(388)	–	-	–	-	–	-	–	(388)	–
Impairment loss on trade receivables	367	–	-	432	-	–	-	–	-	–	367	432
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:												
Loss on disposal of plant and equipment	-	–	-	16	-	–	-	–	-	–	-	16
Written off of plant and equipment	-	–	-	36	-	–	13	18	-	–	13	54

(d) Geographical information

Based on the place of operation of external customers, revenue attributed to the PRC and other countries is approximately RMB212,852,000 and RMB4,255,000 (2017: RMB173,076,000 and nil) respectively.

The Group's assets, liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions is presented.

(e) Information about major customers

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

	2018	2017
	RMB'000	RMB'000
Customer A[1]	51,806	125,068

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

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

The details of emoluments of each of seven (2017: twelve) directors, including chief executive, Mr Qi Jinsong, and three (2017: eight) supervisors for the years ended 31 December 2018 and 2017 are set out below:

	Executive directors				Independent non-executive directors			
For the year ended 31 December 2018	**Mr. Chen Ping RMB'000**	**Mr. Qi Jinsong RMB'000**	**Mr. Guan Zilong RMB'000**	**Mr. Xu Jianfeng RMB'000**	**Mr. Cai Jiamei RMB'000**	**Ms. Huang Lianxi RMB'000**	**Mr. Shen Haiying RMB'000**	**Sub-total RMB'000**
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking								
Fees	–	–	–	–	50	50	50	150
Other emoluments	–	–	–	–	–	–	–	–
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking								
Salaries and other benefits	120	276	97	93	–	–	–	586
Contributions to retirement benefits scheme	–	36	31	17	–	–	–	84
Discretionary bonus (Note e)	–	100	85	26	–	–	–	211
	120	412	213	136	50	50	50	1,031

	Supervisors				
For the year ended 31 December 2018	**Mr. Chen Jian RMB'000**	**Mr. Yu Hui RMB'000**	**Ms. Yao Yajuan RMB'000**	**Sub-total RMB'000**	**Total RMB'000**
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking					
Fees	3	3	7	13	163
Other emoluments	–	–	–	–	–
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking					
Salaries and other benefits	–	–	–	–	586
Contributions to retirement benefits scheme	–	–	–	–	84
Discretionary bonus (Note e)	–	–	–	–	211
	3	3	7	13	1,044

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

For the year ended 31 December 2017	Executive directors						Independent non-executive directors						
	Mr. Chen Ping RMB'000 (Note d)	Mr. Qi Jinsong RMB'000 (Note d)	Mr. Guan Zilong RMB'000 (Note d)	Mr. Xu Jianfeng RMB'000 (Note d)	Mr. Wang Linhua RMB'000 (Note a)	Mr. Wang Yong Gui RMB'000 (Note a)	Mr. Cai Xiao Fu RMB'000 (Note a)	Mr. Zhang De Xin RMB'000 (Note a)	Mr. Gu Yu Lin RMB'000 (Note a)	Mr. Cai Jiamei RMB'000 (Note d)	Ms. Huang Lianxi RMB'000 (Note d)	Mr. Shen Haiying RMB'000 (Note d)	Sub-total RMB'000
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking													
Fees	–	–	–	–	–	–	–	–	–	50	50	50	150
Other emoluments	–	–	–	–	–	–	–	–	–	–	–	–	–
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking													
Salaries and other benefits	10	70	179	62	12	240	–	–	–	–	–	–	573
Contributions to retirement benefits scheme	–	–	28	17	3	7	–	–	–	–	–	–	55
	10	70	207	79	15	247	–	–	–	50	50	50	778

For the year ended 31 December 2017	Supervisors									
	Mr. Xie Jian Ping RMB' 000 (Note a)	Mr. Wang Li Jun RMB'000 (Note a)	Ms. Liu Chun Fang RMB'000 (Note a)	Ms. Wang Xiao Li RMB'000 (Note a)	Mr. Feng Pei Xian RMB'000 (Note a)	Mr. Chen Jian RMB'000 (Note d)	Mr. Yu Hui RMB'000 (Note d)	Ms. Yao Yajuan RMB'000 (Note d)	Sub-total RMB'000	Total RMB'000
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking										
Fees	–	–	–	–	–	3	3	–	6	156
Other emoluments	–	–	–	–	–	–	–	–	–	–
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking										
Salaries and other benefits	–	–	–	–	–	–	–	35	35	608
Contributions to retirement benefits scheme	–	–	–	–	–	–	–	–	–	55
	–	–	–	–	–	3	3	35	41	819

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

Notes:

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

(b) None of the directors or supervisors waived or agreed to waive any emoluments paid by the Group for the years ended 31 December 2018 and 2017.

(c) No emoluments were paid or payable to any directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2018 and 2017.

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

(e) The discretionary bonus is determined by the Remuneration Committee having regard to their performance and the Company's performance and profitability and the prevailing market conditions.

10. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals include one (2017: one) director, whose emoluments have been included in note 9 above. The emoluments of the remaining four (2017: four) individuals were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**1,382**	1,043
Contributions to retirement benefits scheme	**30**	114
	1,412	1,157

The emoluments of each of these individuals for both years were less than HK$1,000,000 (equivalent to approximately RMB877,997 (2017: RMB835,910)).

No emoluments were paid or payable to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2018 and 2017.

11. INCOME TAX EXPENSE (CREDIT)

	2018 RMB'000	2017 RMB'000
Current tax expense		
PRC Enterprise Income Tax	**56**	–
Overprovision in previous years		
PRC Enterprise Income Tax	**–**	(1,615)
Deferred tax (Note 27)	**230**	–
	286	(1,615)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises is 25% for the years ended 31 December 2018 and 2017. One of the subsidiaries was subject to EIT at a rate of 15% for the year ended 31 December 2018 as it is classified as a High and New Technology Enterprise.

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

No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2018 and 2017.

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

	2018 RMB'000	2017 RMB'000
Profit (loss) before tax	**8,223**	(6,186)
Tax at the domestic income tax rate of 25% (2017: 25%) (Note)	**2,056**	(1,547)
Income tax on concessionary tax rate	**(766)**	(1)
Tax effect of expenses not deductible for tax purpose	**185**	430
Tax effect of income not taxable for tax purpose	**(122)**	(956)
Tax effect of super deduction on research and development expenditure	**(1,061)**	–
Tax effect of tax losses not recognised	**511**	2,085
Utilisation of previously unrecognised tax losses	**(517)**	(11)
Overprovision in previous years	**–**	(1,615)
Income tax expense (credit) for the year	**286**	(1,615)

Note: The PRC EIT rate of 25% (2017: 25%) was used as it was the domestic tax rate where the results and operation of the Group is substantially derived from during the year ended 31 December 2018.

12. PROFIT (LOSS) FOR THE YEAR

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

	2018 RMB'000	2017 RMB'000
Salaries and other benefits (including directors', chief executive's and supervisors' emoluments)	**24,343**	4,405
Severance payments	**–**	21
Contributions to retirement benefits scheme	**3,149**	726
Total staff costs	**27,492**	5,152
Auditors' remuneration	**628**	511
Depreciation of plant and equipment	**670**	568
Amortisation of intangible assets (included in general and administrative expenses)	**1,100**	–
Loss on written off of plant and equipment	**13**	54
Loss on disposal of plant and equipment	**–**	16
Interest on bank borrowing (included in finance cost)	**212**	–
Impairment loss on inventories (included in cost of sales)	**–**	6
Impairment loss on trade receivables	**–**	432
Impairment loss/written off of other receivables	**24**	715
Operating lease rental for office premises	**2,544**	2,001
Cost of inventories recognised as an expense	**161,600**	158,670
and after crediting to other operating income, gains or losses:		
– Government grants (Note)	**(687)**	(87)
– Interest income from banks	**(501)**	(203)
– Other interest income	**(267)**	–
– Rental income	**(99)**	(157)
– Written off of other payables	**(100)**	(3,971)
– Gain on disposal on intangible assets	**(712)**	–
– Reversal on provision of trade receivables, net with impairment loss on trade receivables	**(21)**	–
– Exchange (gain) loss, net	**(1,162)**	1,804

Note: Government grants received during the years ended 31 December 2018 and 2017 relate to rebate of other taxes and value-added tax. There are no unfulfilled conditions or contingencies relating to those grants.

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

14. EARNINGS (LOSS) PER SHARE

The calculations of the basic earnings (loss) per share are based on profit (loss) for the year attributable to owners of the Company of approximately RMB8,393,000 (2017: loss of RMB4,392,000) and on 506,546,000 (2017: 506,546,000) shares in issue during the year ended 31 December 2018.

Diluted earnings (loss) per share was the same as basic earnings (loss) per share for the years ended 31 December 2018 and 2017 as there were no potential ordinary shares existed during both years.

15. PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office furniture, fixtures and other equipment RMB'000	Total RMB'000
COST				
At 1 January 2017	3,830	1,262	2,701	7,793
Additions	661	–	299	960
Written off	(3,830)	–	(997)	(4,827)
Disposals	–	–	(25)	(25)
At 31 December 2017 and 1 January 2018	661	1,262	1,978	3,901
Additions	301	–	180	481
Acquisition of a subsidiary (Note 31)	–	15	181	196
Written off	–	–	(453)	(453)
At 31 December 2018	**962**	**1,277**	**1,886**	**4,125**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2017	3,830	956	2,234	7,020
Provided for the year	109	51	408	568
Eliminated on written off	(3,830)	–	(943)	(4,773)
Eliminated on disposal	–	–	(8)	(8)
At 31 December 2017 and 1 January 2018	109	1,007	1,691	2,807
Provided for the year	368	51	251	670
Eliminated on written off	–	–	(440)	(440)
At 31 December 2018	**477**	**1,058**	**1,502**	**3,037**
CARRYING VALUES				
At 31 December 2018	**485**	**219**	**384**	**1,088**
At 31 December 2017	552	255	287	1,094

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

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

16. INTANGIBLE ASSETS

	Patents RMB'000	Computer software RMB'000	Self-developed software RMB'000	Total RMB'000
COST				
At 1 January 2017, 31 December 2017 and 1 January 2018	250	11,774	11,360	23,384
Acquisition of a subsidiary (Note 31)	–	–	10,500	10,500
Disposal (Note 37)	–	–	(9,000)	(9,000)
At 31 December 2018	250	11,774	12,860	24,884
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2017, 31 December 2017 and 1 January 2018	250	11,774	11,360	23,384
Provided for the year	–	–	1,100	1,100
Eliminated on disposal (Note 37)	–	–	(825)	(825)
At 31 December 2018	250	11,774	11,635	23,659
CARRYING VALUES				
At 31 December 2018	**–**	**–**	**1,225**	**1,225**
At 31 December 2017	–	–	–	–

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

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

17. GOODWILL

	RMB'000
COST	
At 1 January 2017, 31 December 2017 and 1 January 2018	956
Arising on acquisition of a subsidiary (Note 31)	1,856
At 31 December 2018	2,812
ACCUMULATED IMPAIRMENT	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	956
CARRYING AMOUNTS	
At 31 December 2018	**1,856**
At 31 December 2017	–

For the purposes of impairment testing, the carrying value of goodwill set out above has been allocated to one CGU, comprising a subsidiary in the provision of smart city solutions.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of this CGU has been determined based on a value-in-use calculation with reference to a valuation performed by the management. The calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 5-year period and a pre-tax discount rate of 20% per annum. Cash flows have been extrapolated using a steady growth rate of approximately 1.5%. This growth rate is based on relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of CGU. As a result, no impairment loss has been recognised during the year ended 31 December 2018.

18. INVENTORIES

	2018 RMB'000	2017 RMB'000
Computer software and hardware	**7,393**	3,143
Finished goods held for resale under provision of e-commerce supply chain services	**1,707**	–
	9,100	3,143

19. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables at amortised cost	**31,815**	44,348
Less: allowance for impairment loss	**(532)**	(978)
	31,283	43,370

As at 31 December 2018, the gross amount of trade receivable arising from contracts with customers amounted to approximately RMB31,815,000 (1 January 2018: RMB44,348,000).

There were no specific credit period granted to customers except for an average credit period of 30-90 days (2017: 60-180 days) to its trade customers under trading of hardware and computer software segment. Ageing analysis of the trade receivables net of allowance for impairment loss of trade receivables as at the end of reporting period, presented based on the invoice date which approximate to revenue recognition date is as follows:

	2018 RMB'000	2017 RMB'000
0 to 60 days	**22,348**	25,596
61 to 90 days	**769**	5,255
91 to 180 days	**6,130**	12,491
Over 180 days	**2,036**	28
	31,283	43,370

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

19. TRADE RECEIVABLES (Continued)

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

	2017 RMB'000
Less than 3 months	12,033
More than 1 year	28
	12,061

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB12,061,000 which are past due as at the end of the reporting period for which the Group has not provided for impairment loss.

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

Starting from 1 January 2018, the Group measures the loss allowance for trade receivables and contract assets at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience and creditworthiness of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As at 31 December 2018, gross amount of trade receivables amounting to approximately RMB11,164,000 arose from trading of computer software and hardware, which are not past due or past due less than 1 year. For balances past due for more than 2 months amounting of RMB234,000, the Group recognised a loss allowance of approximately RMB70,000 based on a loss rate of 30%. No loss allowance was made on the balances not yet due, or overdue less than 2 months as the loss rate is close to zero.

In respect of the remaining trade receivables, as the Group's historical credit loss experience and creditworthiness of the debtors does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

19. TRADE RECEIVABLES (Continued)

The Group recognised lifetime ECL for the remaining trade receivables based on the ageing of customers as follows:

	Weighted average expected loss rate %	**Gross carrying amount** RMB'000	**Loss allowance** RMB'000
Current (not past due)	*	11,619	–
Within 1 year past due	*	8,186	–
1 to 2 years past due	30%	435	126
2 to 3 years past due	80%	411	336
		20,651	462

*: The weighted average expected loss rate is close to zero and therefore no loss allowance is made.

Generally, trade receivables are written-off if past due for more than 36 months and are not subject to enforcement activity. The Group does not hold collateral as security.

The movement in the loss allowance of trade receivables is set out below:

	2018 **RMB'000**	2017 RMB'000
At the beginning of the year	**978**	4,237
Impairment loss recognised on trade receivables	**367**	432
Amount recovered during the year	**(388)**	–
Amounts written off as uncollectible	**(425)**	(3,691)
At the end of the year	**532**	978

As at 31 December 2017, included in the allowance for impairment of trade receivables were individually impaired trade receivables with an aggregate balance of RMB432,000.

20. PREPAYMENTS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Non-current		
Deposit paid and other receivables	**1,844**	–
Current		
Prepayments to suppliers	**24,411**	5,508
Advances to employees	**650**	–
Deposit paid and other receivables	**4,206**	973
	29,267	6,481
Less: Impairment losses	**(24)**	(120)
Prepayments and other receivables	**29,243**	6,361

Included in deposit paid and other receivables is an amount of approximately RMB5,044,000 (2017: Nil) representing deposit paid to customers for securing the Group's due performance of contracts, of which an amount of approximately RMB1,844,000 is expected to be recovered upon completion of contracts after one year from the end of the reporting period.

Movement in the impairment losses on prepayments and other receivables:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**120**	6,428
Impairment loss recognised	**24**	132
Amounts written off as uncollectible	**(120)**	(6,440)
At the end of the year	**24**	120

As at 31 December 2018, a lifetime ECL of RMB24,000 is made in respect of other receivables with gross carrying amount of RMB24,000 as they are determined to be credit impaired. For the remaining balance of other receivables, it has low risk of default or has not been a significant increase in credit risk since initial recognition and no impairment loss is recognised.

Amounts written off as uncollectible are as follows:

	2018 RMB'000	2017 RMB'000
Fund advances	**–**	6,157
Advances to employees	**–**	283
Prepayments to suppliers	**120**	–
Amounts written off as uncollectible	**120**	6,440

20. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Advances to employees are unsecured, interest-free and repayable on demand.

At 31 December 2017, included in the gross amount of fund advances were balances due from former related parties (Note 33(a)) of approximately RMB340,000. Accumulated impairment loss of approximately RMB340,000 was provided in respect of such advances. During the year ended 31 December 2017, such amount was written off as uncollectible.

At 31 December 2017, included in the gross amount of advances to employees was balance due from an independent third party of approximately RMB283,000. During the year ended 31 December 2017, the amounts were written off as uncollectible.

At 31 December 2017, included in the impairment losses are individually impaired prepayments and other receivables with an aggregate balance of approximately RMB120,000 which were long outstanding. Management considers the unimpaired balances are fully recoverable as the recoverable amounts of the relevant debtors as at 31 December 2017 are not less than the carrying amounts of such balances. The Group did not hold any collateral over these balances.

21. CONTRACT ASSETS

Contract assets are initially recognised for certain amount of revenue earned from provision of smart city solutions as receipt of consideration is conditional on successful completion of retention period ranging from 1-3 years. The contract assets are transferred to trade receivables when the rights become unconditional. Upon completion of retention period, the amounts recognised as contract assets are reclassified to trade receivables.

At 31 December 2018, contract assets of approximately RMB803,000 are expected to be recovered after one year from the end of reporting period. Impairment assessment of contract assets is set out in note 6(b)(ii).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2018, financial assets at FVTPL represented wealth management products placed at a bank with no fixed maturity period. The deposit is non-guaranteed with expected return of around 2.00% – 3.85% per annum.

23. BANK BALANCES AND CASH

Bank balances carried interest rate at average market rate of 0.30% to 1.11% (2017: 0.30% to 1.11%) per annum.

24. TRADE AND OTHER PAYABLES

	2018 **RMB'000**	2017 RMB'000
Trade payables	**14,277**	1,672
Other tax payables	**2,462**	309
Accrued wages and salaries	**2,047**	1,548
Accrued expenses and other payable	**2,722**	1,224
	21,508	4,753

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

	2018 **RMB'000**	2017 RMB'000
Less than one year	**6,778**	1,320
Over one year but less than two years	**5,259**	133
Over two years but less than three years	**285**	18
More than three years	**1,955**	201
	14,277	1,672

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

25. CONTRACT LIABILITIES/RECEIPT IN ADVANCE FROM CUSTOMERS

	As at 31 December 2018 **RMB'000**	As at 1 January 2018 and 31 December 2017 RMB'000
Current	**3,303**	557

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is approximately RMB557,000. There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

As at 31 December 2018, the balance represents (i) advance payment from customers of approximately RMB2,002,000 (2017: RMB557,000) for bulk purchase in respect of the trading of hardware and software segment; and (ii) upfront deposits of RMB1,301,000 in respect of smart city solution projects.

26. BANK BORROWING

	2018 RMB'000	2017 RMB'000
Carrying amount repayable (based on scheduled repayment dates set out in the loan agreement):		
– Guaranteed borrowing repayable within one year	**10,000**	–

As at 31 December 2018, the bank borrowing carried at a fixed interest rate of 0.48% per month. The bank borrowing was guaranteed by an independent third party.

27. DEFERRED TAX

The followings are the major deferred tax (liabilities) assets recognised and movements thereon during the current years:

	Fair value adjustments RMB'000	Tax losses RMB'000	Total RMB'000
At 31 December and 1 January 2018	–	–	–
Acquisition of a subsidiary (Note 31)	(1,575)	2,069	494
Credit (charged) to profit or loss (Note 11)	1,391	(1,621)	(230)
At 31 December 2018	(184)	448	264

As at acquisition date and 31 December 2018, the Group recognised deferred tax assets in respect of tax losses of approximately RMB13,793,000 and RMB2,987,000 respectively, as the realisation of the related tax benefit through future taxable profit is considered as probable.

At 31 December 2018, the Group had remaining unused tax losses amounted to approximately RMB31,039,000 (2017: RMB35,789,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these remaining unused tax losses due to the unpredictability of future profit streams. During the year ended 31 December 2018, unrecognised tax losses of the Group decreased by approximately RMB755,000 and RMB3,972,000 due to deregistration of a subsidiary and expiry of tax losses. The entire tax losses can be carried forward for five years from the respective years in which the loss arose.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to approximately RMB9,706,000 (2017: Nil) 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.

28. PAID-IN CAPITAL

	Number of shares		Amount	
	2018	2017	**2018**	2017
	'000	'000	**RMB'000**	RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.1 each				
At 1 January and 31 December	**244,421**	244,421	**24,442**	24,442
Overseas public shares ("H shares") with par value of RMB0.1 each				
At 1 January and 31 December	**262,125**	262,125	**26,213**	26,213
Total	**506,546**	506,546	**50,655**	50,655

29. RESERVES

Statutory surplus reserve

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

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

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

30. COMMITMENTS

(a) Operating lease commitments

The Group as lessee

The Group leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from two to five years (2017: two to five years) and rentals are under fixed rate throughout the lease period.

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

	2018 RMB'000	2017 RMB'000
Within one year	**2,206**	1,365
In the second to fifth year inclusive	**1,020**	2,120
	3,226	3,485

The Group as lessor

Rental income earned during the year was approximately RMB99,000 (2017: RMB157,000). The Group leases its rented property under operating lease arrangement. Lease is negotiated for a term of one to three years (2017: one to three years) with fixed rentals throughout the rental period.

At the end of the reporting period, the Group had contracted with nil (2017: 1) tenant for the following future minimum lease payments:

	2018 RMB'000	2017 RMB'000
Within one year	**–**	79
In the second to fifth year inclusive	**–**	105
	–	184

(b) Other commitment

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

	2018 RMB'000	2017 RMB'000
Acquisition of a subsidiary	**–**	25,200

31. ACQUISITION OF A SUBSIDIARY

Pursuant to a sale and purchase agreement dated 29 September 2017, the Group acquired 100% equity interest in Increator Technology Co., Ltd ("Increator") for a cash consideration of RMB25,200,000 from Mr. Zhang Xuguang and Hangzhou Kameng Internet Technology Company Limited (the "Vendors"), independent third parties of the Group (the "Acquisition").

Details of the Acquisition are disclosed in the circular of the Company dated 15 December 2017.

The transaction was completed on 5 February 2018, at which time the Group obtained control over Increator.

Increator is engaged in the provision of smart city solutions in the PRC. The Group has acquired Increator so as to expand to this new market segment. The Acquisition has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was approximately RMB1,856,000.

Assets acquired and liabilities recognised at the date of acquisition are as follows:	RMB'000
Intangible assets	10,500
Plant and equipment	196
Deferred tax assets	494
Trade receivables	4,717
Other receivables	5,551
Contract assets	850
Financial assets at FVTPL	19,500
Bank balances and cash	1,800
Trade payables and other payables	(19,460)
Contract liabilities	(804)
	23,344

The fair value of trade and other receivables at the date of acquisition amounted to approximately RMB10,268,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately RMB9,426,000 and RMB11,906,000 respectively at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB4,709,000 and RMB6,355,000 respectively.

Goodwill arising on acquisition:	RMB'000
Consideration	25,200
Less: net assets acquired	(23,344)
Goodwill arising on acquisition	1,856

Net cash outflow on acquisition of Increator:	RMB'000
Cash consideration paid	25,200
Less: bank balance and cash acquired	(1,800)
	23,400

31. ACQUISITION OF A SUBSIDIARY (Continued)

Goodwill arose in the acquisition of Increator because the cost of the combination included a control premium. The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Acquisition-related costs amounting to approximately RMB91,000 had been excluded from the consideration transferred and have been recognised as an expense during the year ended 31 December 2018, within the general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Included in the profit for the year is approximately RMB7,403,000 attributable to the additional business generated by Increator. Revenue for the year includes approximately RMB36,278,000 generated from Increator.

Had the acquisition been completed on 1 January 2018, total revenue of the Group for the year would have been approximately RMB221,212,000, and profit for the year would have been approximately RMB9,712,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Increator been acquired at the beginning of the current year, the Directors have calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

32. 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 consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018 RMB'000	Financing cash flows RMB'000	Finance costs incurred RMB'000	31 December 2018 RMB'000
Bank borrowing	–	10,000	–	10,000
Interest payable	–	(212)	212	–
	–	9,788	212	10,000

33. RELATED AND CONNECTED PARTY TRANSACTIONS

(a) Balances with related parties

As at 31 December 2018, there was no balance with related parties.

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

As at 31 December 2017

Name of related party	Loan nature	Gross outstanding amount at 31/12/2017 RMB'000	Impairment/ Amount written off RMB'000	Net amount at 31/12/2017 RMB'000	Maximum amount owed to the Group during the year RMB'000
Mr.Wang Linhua [1]	Quasi-loan	8	(8)	N/A	8
浙江元幸信息科技有限公司 [2]	Quasi-loan	132	(132)	N/A	132
Mr. Xie Jian Ping [3]	Quasi-loan	200	(200)	N/A	200
		340	(340)	–	

1 Mr. Wang Linhua was an executive director of the Company. Mr. Wang has resigned as the director of the Company on 8 May 2017.

2 Mr. Xie Jian Ping was the supervisor of the Company and the beneficial owner of that company. Mr. Xie has resigned as the supervisor of the Company on 8 May 2017.

3 Mr. Xie Jian Ping was the supervisor of the Company. Mr. Xie has resigned as the supervisor of the Company on 8 May 2017.

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

(b) Compensation of key management personnel

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

	2018 RMB'000	2017 RMB'000
Short-term benefits	2,648	1,548
Post-employment benefits	130	169
	2,778	1,717

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

34. RETIREMENT BENEFITS SCHEME

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

The total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB3,149,000 (2017: RMB726,000) represents contributions payable to this scheme by the Group in respect of the current accounting period.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2018** **RMB'000**	2017 RMB'000
Non-current assets			
Plant and equipment		**498**	644
Investments in subsidiaries	(a)	**56,704**	11,504
		57,202	12,148
Current assets			
Trade receivables		**46**	42,048
Prepayments and other receivables		**13,711**	135
Amounts due from subsidiaries	(b)	**34,286**	–
Financial assets at FVTPL		**2,800**	–
Bank balances and cash		**7,959**	44,191
		58,802	86,374
Current liabilities			
Trade and other payables		**1,443**	2,171
Amounts due to subsidiaries	(b)	**21,361**	11,377
Bank borrowing		**10,000**	–
		32,804	13,548
Net current assets		**25,998**	72,826
NET ASSETS		**83,200**	84,974
Capital and reserves			
Paid-in capital		**50,655**	50,655
Reserves	(c)	**32,545**	34,319
TOTAL EQUITY		**83,200**	84,974

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

Notes:

(a) Investments in subsidiaries

	2018 RMB'000	2017 RMB'000
Unlisted investments, at cost	**65,080**	19,880
Accumulated impairment losses	**(8,376)**	(8,376)
	56,704	11,504

(b) The amounts due from/to subsidiaries are unsecured, repayable on demand and interest income/expense charged according to the terms of the agreements entered into between the parties.

(c) Reserves

	Attributable to owners of the Company			
	Share premium RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	101,336	7,934	(62,124)	47,146
Loss and total comprehensive expense for the year	–	–	(12,827)	(12,827)
At 31 December 2017 and 1 January 2018	101,336	7,934	(74,951)	34,319
Loss and total comprehensive expense for the year	–	–	(1,774)	(1,774)
At 31 December 2018	101,336	7,934	(76,725)	32,545

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2018 and 2017 are as follows:

Name	Form of business	Place of establishment/ operations	Issued share capital/ Paid up issued registered share capital	Proportion of ownership interest held by Company (2018)		Proportion of ownership interest held by Company (2017)		Principal activities
				Directly	Indirectly	Directly	Indirectly	
浙江蘭創通信有限公司	Private Limited	PRC	Registered capital of RMB10,000,000	85%	–	85%	–	Provision of telecommunication related services
杭州華光計算機工程有限公司	Private Limited	PRC	Registered capital of RMB10,000,000	100%	–	100%	–	Trading of hardware and computer software
杭州華光軟件有限公司	Private Limited	PRC	Registered capital of RMB500,000	–	(Note a)	–	70%	Trading of hardware and computer software
升華科訊有限公司 (“升華科訊”)	Private Limited	Hong Kong	Issued share capital HKD800,000	100%	–	100%	–	Provision of e-commerce supply chain services
浙江創建科技有限公司 (“浙江創建”)	Private Limited	PRC	Registered capital of RMB40,000,000	100% (Note b)	–	–	–	Provision of smart city solution

Notes:

(a) The subsidiary was deregistered on 11 April 2018.

(b) The subsidiary was acquired by the Group on 5 February 2018.

All subsidiaries are limited liability companies.

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

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during both years.

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

Principal activities	Incorporation place	Number of subsidiaries 2018	2017
Inactive	The PRC	**3**	2

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

37. MAJOR NON-CASH TRANSACTION

During the year, the Group disposed of an intangible asset with carrying amount of RMB8,175,000 at a cash consideration of RMB8,887,000 already received by Increator prior to the Acquisition (Note 31), resulting in a gain on disposal of RMB712,000.

38. COMPARATIVES

Certain comparative figures in the consolidated statement of profit or loss and other comprehensive income have been reclassified to confirm with the current year's presentation.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**217,107**	173,076	140,486	64,654	48,130
Cost of sales	**(179,305)**	(159,556)	(125,308)	(50,432)	(29,914)
Gross profit	**37,802**	13,520	15,178	14,222	18,216
Other operating income, gains or losses	**3,564**	2,690	3,812	938	2,156
Distribution and selling expenses	**(9,129)**	(7,180)	(10,675)	(10,699)	(12,352)
General and administrative expenses	**(19,102)**	(15,216)	(12,388)	(14,910)	(19,855)
Research and development expenditure	**(4,700)**	–	–	–	–
Finance cost	**(212)**	–	–	–	–
Profit (loss) before tax	**8,223**	(6,186)	(4,073)	(10,449)	(11,835)
Income tax (expense) credit	**(286)**	1,615	140	–	–
Profit (loss) and total comprehensive income (expense) for the year	**7,937**	(4,571)	(3,933)	(10,449)	(11,835)
Attributable to:					
– Owners of the Company	**8,393**	(4,392)	(3,530)	(9,381)	(11,237)
– Non-controlling interests	**(456)**	(179)	(403)	(1,068)	(598)
	7,937	(4,571)	(3,933)	(10,449)	(11,835)
Earnings (loss) per share					
– Basic and diluted (RMB cents)	**1.66**	(0.87)	(0.70)	(2.54)	(3.15)

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	**139,958**	102,550	112,354	116,591	92,615
Total liabilities	**(34,867)**	(5,310)	(10,543)	(10,847)	(16,188)
Non-controlling interests	**(2,213)**	(2,755)	(2,934)	(3,337)	(4,405)
Shareholders' equity	**102,878**	94,485	98,877	102,407	72,022