Futong 富通

Futong Technology Development Holdings Limited
富通科技發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 465

2016 Annual Report

企业级信息产品及解决方案提供商

Contents

Chairman's Statement

TO OUR SHAREHOLDERS,

On behalf of the board of directors of Futong Technology Development Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), I am pleased to present to all our shareholders the annual results of the Group for the year ended 31 December 2016 (the "**Year**").

Last year, affected by various factors including an unstable global economy and uncertain political conditions, China's GDP grew at 6.7%, the same rate as the previous year. Meanwhile, under the influence of various factors, certain customers remained prudent when placing large IT orders, hence, the operating environment was highly challenging for the entire market. At the same time, the continuous development of the Internet, cloud computing and big data by local IT companies brought changes to the entire IT market, as well as created opportunities. The Group has actively transformed its business to meet market demands, and to achieve business breakthroughs and grow amid the harsh environment. During the Year, our turnover increased by 34.5% year-on-year, of which Huawei products were the best performers.

In 2016, we actively promoted the concept of all-round value-added services, which include value-added service solutions with big data, business intelligence, data transfer, data analysis, integration of resource pools, storage virtualization, disaster recovery and system monitoring at its core. During the Year, the Group was named 2016 Top Ten IT Value-added Distributors in China at the 2016 China Cloud Computing Ecosystem Summit, a reflection of our competitive edges in channel resources and professional integrated services.

During the Year, on top of our existing IT distribution business, we brought together IT distribution and system integration, with the objective of creating value for customers based on a customer-centric approach. Consequently, the Group not only sells products, but also forms one-stop integrated solutions. The strong, close and stable interactive and synergistic relationship that the Group shares with many quality partners provide strong support for its steady and healthy business growth.

We are also actively developing our products and services under our own brands as an effective supplement to the product line under our dealerships, including "Cloudoors" for cloud management solutions. This product demonstrates the Group's ability to innovate, as well as the capacity to provide one-stop IT solutions for our customers.

In the future, given the increasing popularity of the Internet, addressing customer demand will involve not only focusing on the product level, but also extend to the need for upgrading their business systems. Cloud platform business will become the fourth segment of Futong. The increasing sophistication of cloud computing and big data in different areas such as technology, products and business models will unleash greater opportunities. We believe that the development of the cloud platform is the latest trend in the industry, and represents the first and foremost mission of the Group on its path of business transformation.

Currently, Futong is beginning to develop its cloud computing operation by establishing partnerships with leading public cloud service providers and assisting customers to construct and manage their cloud platform in order to improve the efficiency of their IT systems. While working closely with the domestic and foreign brands, the Group also develops its own leading advanced software and cloud computing products. At the same time, it is also working with various innovative small and medium-sized enterprises from the cloud computing and big data sectors in order to provide suitable cloud value-added services for customers.

In 2017, under the competitive and complicated new norms of the operating environment, the Group's own brands will continue to gain strength and satisfy the business needs of customers. We will develop our brands through in-depth cooperation with the customers. In addition, drawing from our capabilities and technological services, we will push forward our transformation and continue to move towards establishing an internetized marketing and service model. While capturing opportunities that emerge from the transformation of the IT industry, the Group will leverage the advantage of its position as a distributor, linking customers and vendors to become an integrated service provider of corporate ICT resources that facilitates the industrial development of China in the "Internet Plus" era.

Finally, I would like to take this opportunity to express my sincere gratitude to our team for their efforts and contributions over the past year, and to all of our shareholders for their longstanding trust and support.

Chen Jian
Chairman

Hong Kong, 22 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally specialises in providing enterprise IT infrastructure products, services and solutions in the PRC and is an industry leader in its field. It also undertakes research, development and sales of a series of its own brand enterprise IT products. Globally renowned enterprises such as IBM, Huawei, Oracle, Sugon, SAP etc., have been important long-standing partners of the Group.

Sales of IBM products

For the Year under review, revenue from the sales of IBM's hardware and software products, including enterprise servers, system storage products and software, and which are often bundled with value-added services, amounted to approximately RMB865.9 million (2015: approximately RMB928.1 million. This comparative figure was restated by reclassifying RMB74.3 million to the "sales of other products" category). The revenue from sales of IBM products for the Group was relatively stable as compared with last year though IBM itself has been undergoing a global scale business structural reform, proactively deploying its development in the cognitive services business. In light of this, the Group expected that the revenue from sales of IBM products of the existing categories will remain stable. Nonetheless we look forward to co-operate with IBM in the field of cognitive services in the future.

Sales of IBM's products and provision of related services remained as a major, though no longer the Group's primary revenue generator, accounting for approximately 25.2% of its total revenue for the year ended 31 December 2016 (2015: approximately 39.2%).

Sales of Huawei products

Distribution business of Huawei products has achieved an encouraging results for the Year. The revenue from this business continued to grow strongly, surpassing that of IBM products, hence the sales of Huawei products has become the major revenue generator of the Group. This business, which included sales of servers, storage and cloud computing products, reported strong growth for the past two years and the growth momentum has continued. For the Year under review, it recorded a leap of 91.2% in revenue, representing an increase of RMB616.6 million to approximately RMB1,292.8 million (2015: approximately RMB676.2 million). The amount accounted for approximately 37.6% of the Group's total revenue for the Year (2015: approximately 26.4%). This impressive result was inseparable with the outstanding performance achieved by Huawei itself in the field of information and communications technology.

Sales of Oracle products

For the Year under review, revenue from sales of Oracle products and related services, including database management software, middleware for application servers and systems products, amounted to approximately RMB428.0 million (2015: approximately RMB313.9 million), an increase of 36.3% as compared with the corresponding period of 2015. The amount accounted for approximately 12.4% of the Group's total revenue (2015: approximately 12.3%). Oracle products enjoy the leading position in the market, especially the database management products, hence the Group's revenue from sales of these products was able to show improvement.

Sales of other products

Other sources of revenue for the Group included sales of products of Sugon, Lenovo, EMC, SAP, VMware, the Group's own-brand products and other IT products and accessories. Revenue from these income sources amounted to approximately RMB573.3 million, an increase of approximately RMB237.0 million or 70.5% (2015: approximately RMB336.3 million, this comparative figure was restated as mentioned above). Among the different products in this income category, the revenue from sales of Sugon products surged by RMB292.8 million or 291.3% as compared with the corresponding period of 2015, to approximately RMB393.3 million. Revenue from sales of products in this category accounted for approximately 16.7% of the Group's total revenue for the Year (2015: approximately 13.1%).

Provision of services

During the Year, the revenue from provision of services amounted to approximately RMB281.2 million (2015: approximately RMB304.1 million), representing approximately 8.2% of the Group's total revenue (2015: approximately 11.9%).

FINANCIAL REVIEW

Revenue

For the Year under view, revenue of the Group increased by approximately RMB882.5 million or 34.5% as compared with the corresponding period in 2015, to approximately RMB3,441.2 million (2015: approximately RMB2,558.7 million). The increase was mainly due to significant increases in sales of products of Huawei, Sugon and Oracle, which reflects that the market demand for domestic brand products continued to be strong, and sales of industry-leading Oracle products to be rising in the market.

Gross profit

Gross profit of the Group increased by approximately RMB13.4 million or 5.7% to approximately RMB246.8 million for the Year (2015: approximately RMB233.4 million) while gross profit ratio decreased from 9.1% to 7.2%. The drop in gross profit ratio was understandable as the reliance of the sales mix of the Group was shifting from traditional overseas brand IT products to domestic brand products that face keen competition in price. However, the Group was able to counter price pressure with higher sales quantities and the shift in sales focus has given it opportunities to develop new markets and customers.

Other income, other gains and losses

This comprises of mainly interest income from bank deposits, government grants, foreign exchange loss and impairment loss on trade receivables. For the Year under review, net losses from other income, other gains and losses amounted to approximately RMB5.2 million (2015: net gain of approximately RMB0.7 million), representing an increase in net loss of approximately RMB5.9 million. This increase was mainly due to the decrease in bank interest income as no onshore pledged deposits were placed in the banks as security deposits for obtaining certain offshore bank borrowings as compared to last year. Furthermore, the increase in losses was also partially caused by increments in impairment loss on trade receivables.

Selling and distribution expenses

For the Year under review, selling and distribution expenses of the Group amounted to approximately RMB134.6 million (2015: approximately RMB125.9 million), representing an increase of approximately 6.9% compared with the corresponding period in 2015. The increase was mainly due to rise in staff costs with salary increments in line with general inflation, maintaining remuneration packages competitive with the market, and increase in sales bonus distributed to high-performing staff.

Administrative expenses

Administrative expenses of the Group for the Year amounted to approximately RMB47.1 million (2015: approximately RMB43.1 million), representing 9.2% increase as compared with the corresponding period in 2015. The increase was mainly due to the increase in amortization of research and development cost for the development of our own brand products and a raise in staff cost as a result of general inflation and more resources were invested in the research and development of our products during the Year.

Finance costs

Finance costs of the Group continued to decrease by approximately RMB6.4 million or 16.1% from approximately RMB39.4 million for the year ended 31 December 2015 to approximately RMB33.1 million for the Year. The decrease was mainly due to the decrease in both the average borrowing amounts and weighted average borrowing interest rate during the Year.

Income tax expenses

With reference to the tax issue mentioned in the 2015 annual report and 2016 interim report under the section "Management Discussion and Analysis" with heading "Income Tax Expenses", there was a change in income tax rate from 15% to 25% for Beijing Futong Dongfang Technology Co., Ltd. ("**Futong Dongfang**"), a PRC subsidiary of the Company. As a result of the recalculation of deferred tax due to the income tax rate change in the year ended 31 December 2015, approximately RMB9.0 million additional deferred tax assets were credited to and off-set the income tax expenses of the Group for the year ended 31 December 2015.

Futong Dongfang has continued to negotiate with the relevant tax authorities to recover the penalty and extra tax, and to reinstate its entitlement to the preferential income tax rate during the Year. In the fourth quarter of the Year, the relevant tax authorities issued a tax notice to Futong Dongfang which states that the tax penalty previously imposed against Futong Dongfang is revoked. As a result, all such part of penalty in the sum of approximately RMB0.3 million, together with all those extra tax charged for prior years in the sum of approximately RMB4.2 million, all of which were previously paid by Futong Dongfang were returned to Futong Dongfang. At the same time, the additional income tax provision for the year 2014 of approximately RMB2.6 million not yet paid were also reversed during the Year.

Subsequent to the year end on 6 March 2017, Futong Dongfang has obtained a reply from the relevant tax authority for the continuous use of preferential tax rate of 15%. In the opinion of the Directors of the Company, Futong Dongfang is subjected to a preferential income tax rate of 15% for year 2016 and enjoy the preferential tax rate of 15% for year 2017 and onwards after the provision of certain filings to the relevant authorities. As a result, the Group has revised the estimate of future applicable income tax rate from 25% to 15% and an amount of approximately RMB9.2 million of deferred tax charge resulting from such change of tax rate is recognized in the profit and loss of the current year. Further disclosure related to this tax issue is set out in notes 9(a)(iv) to the consolidated financial statements.

Profit for the year attributable to owners of the Company

For the year ended 31 December 2016, the profit attributable to owners of the Company amounted to approximately RMB17.7 million (2015: approximately RMB23.7 million), decreasing by approximately RMB6.0 million or 25.4%. The decrease was primarily due to the combined effects of the adjustment of deferred tax charged to income tax expenses, the increase in net losses from other income, other gains and losses, and the increase in operating expenses as mentioned above. The Group has continued to implement stringent cost controls over its operating expenses, especially finance costs which have been greatly reduced this year. All of these cost control measures together with the increase in gross profit due to strong growth in revenue has partially offset the decline in profits.

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2016, the Group had total assets of approximately RMB2,166.6 million and net assets of approximately RMB581.6 million (31 December 2015: approximately RMB1,779.3 million and approximately RMB571.7 million, respectively). In respect of the trade receivables of the Group amounted to approximately RMB1,147.3 million (31 December 2015: approximately RMB736.5 million), net of allowance for doubtful debts of approximately RMB48.6 million (31 December 2015: approximately RMB40.1 million), the management will perform a regular review and implement stringent control measures on trade receivables with a view to ensuring the recovery of trade receivables on the due dates and closely monitoring the Group's liquidity. The Group's bank balances and cash amounted to approximately RMB172.6 million as at 31 December 2016 (approximately RMB341.8 million as at 31 December 2015). The reduction in bank balances was, to a certain extent, due to the increase in purchase amount of certain inventories for which the suppliers involved granted a relatively short credit period or requested payment on delivery. However the management considered the collection period of the corresponding trade receivables was also relatively short, such that the liquidity of the Group can be secured at a healthy level. Bank and other borrowings amounted to approximately RMB603.7 million (31 December 2015: approximately RMB463.3 million). Taking into account the cash on hand and recurring cash flow from its business, the Group's financial position remained healthy and was sufficient to achieve its business objectives.

As at 31 December 2016, approximately 11.1% (31 December 2015: approximately 7.2%) of total borrowings were at fixed interest rates.

As at 31 December 2016, the borrowings of the Group were advanced in Renminbi ("**RMB**") and United States dollars("**US$**") while cash and cash equivalents were held at RMB, US$ and Hong Kong dollars ("**HK$**").

Pledge of Assets

As at 31 December 2016, certain assets of the Group with carrying value of approximately RMB244.6 million (31 December 2015: approximately RMB186.3 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

Net Debt-To-Capital Ratio

The Group's net debt-to-capital ratio as at 31 December 2016 was approximately 53.0 % (as at 31 December 2015 was 9.3%). This ratio was calculated as total borrowings less bank balances and cash, and relevant pledged deposits divided by total equity.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in foreign currencies, i.e, currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$ and Hong Kong dollars.

During the Year, the Group has entered into certain RMB/US$ foreign exchange forward contracts to hedge against the volatility in the RMB/US$ exchange rate. The foreign exchange forward contracts have been fully settled as at the Year ended. The management will continue to monitor closely its foreign currency exposure and requirements and to arrange hedging facilities when necessary.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.9 cents per share for the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on 31 May 2017. The proposed final dividend will be paid on or about 12 June 2017, following the approval by the shareholders in the 2017 annual general meeting ("**2017 AGM**").

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed during the following periods:

To determine the identity of shareholders who are entitled to attend and vote at the 2017 AGM

Latest time for lodging transfers:	4:30 pm on Monday, 15 May 2017
Closure of register of members:	Tuesday, 16 May to Friday, 19 May 2017 (both dates inclusive)
Record date:	Friday, 19 May 2017
Date of 2017 AGM:	Friday, 19 May 2017

To determine the shareholders' entitlement to the proposed final dividend

Latest time for lodging transfers:	4:30 pm on Thursday, 25 May 2017
Closure of register of members:	Friday, 26 May 2017 to Wednesday, 31 May 2017 (both dates inclusive)
Record date:	Wednesday, 31 May 2017
Payment date for final dividend:	On or about Monday, 12 June 2017

No transfer of shares will be registered during the above periods when the Company's register of members is closed.

In order to be eligible for attending and voting at the 2017 AGM and for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than the latest time for lodging transfers as stated above.

ANNUAL GENERAL MEETING

The 2017 AGM of the Company will be held on Friday, 19 May 2017. Notice of 2017 AGM will be published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company and dispatched to the shareholders of the Company in due course.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 499 (31 December 2015: 508) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB119.3 million (2015: approximately RMB107.0 million).

The Group's employees are remunerated by reference to industry practices and performance and the experience of individual employees. Our main focus is to ensure that the Group remains competitive within the market it operates in, to ensure we attract and retain the right talent necessary to grow the business and maximise shareholders' value. We place great emphasis on the development of our people as we firmly believe they are the core of the Group. Through our ongoing training programme, we encourage them to develop their talents and to move up the organisation. We believe these efforts are mutually beneficial to the Group and its employees.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and/or comparable market statistics.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of which are set out in the section headed "Share Option Scheme" and note 26 to the consolidated financial statements.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

After deducting share issuance expenses, the net proceeds from the initial public offering of the Company's shares in December 2009 amounted to approximately RMB102.1 million. As at 31 December 2016, the Group had used approximately RMB10.7 million for setting up new branch offices, approximately RMB25.5 million for sourcing new enterprise IT products, approximately RMB15.3 million for establishment and expansion of IT solution support centers, approximately RMB10.2 million for setting up of training centers, approximately RMB10.2 million for general working capital purposes of the Group, and approximately RMB14.5 million for the investment in research and development of self-branded software and hardware enterprises IT products. The remaining balance of the net proceeds was placed in bank deposit accounts. The Group will apply the remaining net proceeds in the manner set out in the announcement of the Company dated 11 November 2015 in relation to the change in use of proceeds.

OUTLOOK

In the year 2016, mainland China's economy maintained a steady but slower pace of growth. The strategic direction of many information technology companies in China continued to transform their business toward the internet, cloud computing and big data. During the Year under review, certain customers of the Group affected by various factors were still prudent about their large-scale IT procurement, therefore there was no single large sales transaction by the Group. Fortunately, despite operating under such difficult environment, our team was able to grasp every single sales opportunity, outperforming in sales of domestic brand products in particular, and achieving positive sales revenue growth.

The current business of the Group can be classified into three categories: the first is our traditional IT distribution business, through cooperation with leading global IT vendors such as IBM, Huawei and others to assist various customers in different fields to achieve better business performance and transformation; the second is our system integration business, which provides customers with one-stop IT solutions and services; furthermore, we are vigorously developing the third category of our business which is the Group's own-brand products. The Chinese IT market is beginning to mature, while independence, security, system administration and other elements are the primary factors that customers consider before they place their orders for IT products. Thus, the development of our own-brand products has become one of the Group's major strategic directions. Although the proportion of existing own-brand products is comparably less significant in our current business, its role serves as a crucial aspect of the Group's portfolio as it reflects the capability of the Group's independent innovation.

The impact of the Internet on all walks of life is disruptive, and even more so for the IT distribution industry. Currently, the path for traditional IT distribution business has narrowed as intensive competition arises. Customers demand not only IT products, but IT solutions that enable enhancement in their business systems and processes. The Group is well aware of this trend and will continue to place emphasis in providing well-rounded IT solutions to meet customers' demands and set it as our primary objective. The Group strives to help our customers improve their operational efficiency and IT systems capacity, and through constant communication, better understand their actual needs, in order to build stronger relationships.

The Group believes that the development of cloud platform business is not only the market trend, but also a must on the road to business transformation. The Group has partnered with leading public cloud service providers to assist our customers to construct and manage their cloud platform in order to improve the efficiency of their IT systems. In the future, we will not only be able to provide extensive public cloud services, but also extend our services to enterprise customers to customise their deployment of private cloud and hybrid cloud and address their individual needs.

The management of the Group deeply understands that the road of transformation is hard, takes time and courage, and is costly. While steadily advancing towards this goal, we will strictly control the costs and maintain a steady growth in business to protect the interests of the shareholders as a whole.

Directors and Senior Management Profile

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian (陳健先生), aged 56, was appointed as an executive Director and chairman of the Company on 29 July 2009, he is one of the co-founders of the Group. He is also the director of Futong Technology Co. Ltd. ("**Futong BVI**"), Etong Technology Holdings Limited ("**Etong BVI**"), Futong Technology (HK) Company Limited ("**Futong HK**"), Futong Technology Development Holdings (HK) Limited ("**Etong HK**"), Futong Cloud Technology (HK) Company Limited ("**Futong Cloud HK**"), Futong Transcend Technology (HK) Company Limited ("**Futong Transcend HK**"), Beijing Futong Dongfang Technology Co., Ltd. ("**Futong Dongfang**"), Futong Times Technology Co., Ltd. ("**Futong Times**"), Beijing Etong Dongfang Technology Co., Ltd. ("**Etong Dongfang**"), Futong Cloud Technology Co., Ltd ("**Futong Cloud**") and Futong Transcend Technology Co., Ltd. ("**Futong Transcend**") which are subsidiaries of the Company. Mr. Chen is responsible for the strategic development and the Group's business direction, and overseeing the self-developed products business. He has over 27 years of experience in IT industry. Mr. Chen graduated from 中國人民解放軍通信工程學院 (Chinese People's Liberation Army Communication Engineering University) with a bachelor's degree in wireless communications engineering. He is the brother-in-law of Ms. Zhang Yun.

Ms. Zhang Yun (張昀女士), aged 46, was appointed as an executive Director and vice chairlady of the Company on 29 July 2009, and was appointed as the chief executive officer of the Company on 13 November 2015, she is one of the co-founders of the Group. She is also the director of Futong BVI, Etong BVI, Futong HK, Etong HK, Futong Cloud HK, Futong Transcend HK, Futong Dongfang, Futong Times, Etong Dongfang, Futong Cloud and Futong Transcend. Ms. Zhang is responsible for the Group's operations development, overseeing the distribution and customer system integration businesses. She has over 23 years of experience in IT industry. Ms. Zhang graduated from 華東交通大學 (East China Jiaotong University) with a bachelor's degree, majoring in economics. She is the sister-in-law of Mr. Chen Jian.

Independent non-executive Directors

Mr. Lee Kwan Hung (李均雄先生), aged 51, was appointed as an independent non-executive director on 5 November 2009. Mr. Lee received his LL.B. (Honours) degree and Postgraduate Certificate in Laws from The University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1997. Mr. Lee was a senior manager of the Listing Division of the Stock Exchange between 1993 and 1994. Mr. Lee is a practising lawyer and a consultant of Messrs. Howse Williams Bowers. He is also an independent non-executive director of Embry Holdings Limited, NetDragon Websoft Holdings Limited, Asia Cassava Resources Holdings Limited, Newton Resources Limited, Tenfu (Cayman) Holdings Company Limited, China BlueChemical Limited, Landsea Green Properties Co., Ltd., Red Star Macalline Group Corporation Ltd., China Goldjoy Group Limited, FSE Engineering Holdings Limited and Ten Pao Group Holdings Limited, the shares of which are listed on the Stock Exchange. Besides, Mr. Lee was also an independent non-executive director of Yuexiu REIT Asset Management Limited (which manages the Yuexiu Real Estate Investment Trust), Far East Holdings International Limited and Walker Group Holdings Limited.

Mr. Chow Siu Lui (鄒小磊先生), aged 57, was appointed as an independent non-executive Director on 1 December 2016. He is a partner of VMS Investment Group, which is a multi-strategies investment house. Mr. Chow is currently the chairman of the Mainland Development Strategies Advisory Panel of the Hong Kong Institute of Certified Public Accountants and a member of the Investment Advisory Committee of the Hong Kong Institute of Chartered Secretaries. Previously, he was a member of both of the Listing Committee of the Stock Exchange and the Dual Filing Advisory Group of the Securities and Futures Commission. Mr. Chow is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Mr. Chow had been working with one of the four largest certified public accounting firms in the world as a partner for many years. He has an in-depth knowledge on the accounting standards and business regulations in Hong Kong. Mr. Chow has been serving as an independent non-executive director of Fullshare Holdings Limited, Universal Medical Financial & Technical Advisory Services Company Limited, Sinco Pharmaceuticals Holdings Limited, and Shanghai Dazhong Public Utilities (Group) Co., Ltd., the shares of which are listed on the Stock Exchange. He was an independent non-executive director of Kong Shum Union Property Management (Holding) Limited and NWS Holdings Limited.

Mr. Yuan Bo (袁波先生), aged 54, was appointed as an independent non-executive Director on 5 November 2009. He is the founder and managing director of 百碩同興科技(北京)有限公司 (Bayshore Consulting and Services Co., Ltd.). Mr. Yuan graduated from 清華大學 (Tsinghua University) with a master degree, majoring in economics. He was the general manager of China Business Partner Operation Division of 國際商業機器(中國)投資有限公司 (IBM (China) Investment Co., Ltd.) in 1998. He also served as the chief executive officer of Hi Sun Technology Holding Limited (a subsidiary of Hi Sun Technology (China) Limited, shares of which are listed on the Stock Exchange) in 2002. He was a non-executive director of Geong International Limited, a company whose shares are listed on the London Stock Exchange.

SENIOR MANAGEMENT

Mr. Zhao Wei (趙偉先生), aged 45, joined the Group in 2003. He is the vice president of Futong Dongfang. He is responsible for overseeing the day-to-day operations of the business units for system integration, system software and non-financial institutions of the Group. He graduated from 北京理工大學 (Beijing Institute of Technology), majoring in electronic appliances.

Mr. Liu Hanping (劉漢平先生), aged 61, joined the Group in 2014. He is the vice president of Futong Dongfang. He is responsible for overseeing the day-to-day operations of the Group's business units for system integration of financial institutions, PICC, EMC and integrated data services. He graduated from 北京廣播電視大學 (Beijing Open University).

Mr. Qian Ruo Chen (錢若塵先生), aged 44, joined the Group in 2012. He is the vice president of Futong Times. He is responsible for overseeing the day-to-day operations of the business unit of Huawei of the Group. He graduated from 北京科技大學 (University of Sciences and Technology Beijing).

Mr. Xie Hui (謝輝先生), aged 47, joined the Group in 2005. He is the vice president of Futong Dongfang and one of the co-founders of the Group. He is responsible for overseeing the day-to-day operations of the Group's business for domestic-branded servers and products. He graduated from 北京航空航天大學 (Beihang University), majoring in mechanical and electrical engineering.

Mr. Jin Wei (金微先生), aged 42, joined the group in 2014. He is the vice president of Futong Dongfang and the chief technical officer of the Group. He is responsible for overseeing the day-to-day operations of the Group's self-developed products, IT technical and solutions business and also in charge of the marketing department. Mr. Jin graduated from 上海同濟大學 (Shanghai Tongji University) and obtained a bachelor's degree in Computer Science.

Ms. Chen Jing (陳靜女士), aged 48, joined the Group in 2005. She is the vice president of Futong Dongfang. She is responsible for overseeing the day-to-day operations of the Group's sales management department, logistics management department, IT management department, human resources department, public relations department and financial department. She graduated from 北京聯合大學 (Beijing Union University) with a bachelor degree majoring in mechanical engineering.

Mr. Siu Hin Leung (蕭顯良先生), aged 44, joined the Group in 2012. He is the financial controller of Futong HK. He is also the authorized representative and company secretary of the Company. He obtained a Bachelor of Arts with Honours Degree in Accountancy from City University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has extensive experience in accounting and financial management.

Mr. Ma Yan (馬岩先生), aged 38, joined the Group in 2012, and appointed as the financial controller of Futong Times in 2015. He obtained a bachelor degree in Accounting from the Beijing University of Technology, China. He is a member of the Chinese Institute of Certified Public Accountant. Prior to joining the Group, Mr. Ma worked as a practicing accountant in Deloitte Touche Tohmatsu for over 8 years in China.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices with a view of being a transparent and responsible organisation, which is open and accountable to the shareholders and for protection of shareholders' and stakeholders' rights and enhance shareholders' value. The Board believes that good corporate governance establishes a framework which is essential for and advantageous to the Group's effective management and sustainable business growth.

The Board is also responsible for performing the corporate governance function of the Company. During the year ended 31 December 2016, the Board has performed the duties and monitored the Company's compliance with the CG Code. The Board has also reviewed the Company's policies and practice on corporate governance.

COMPLIANCE WITH THE CODE

During the year ended 31 December 2016, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange.

THE BOARD OF DIRECTORS

Responsibilities of the Board

The Board is collectively and ultimately responsible for the effective oversight of the management, and the strategic direction and performance of the Group. All Directors have full and direct access to the advices and services of the company secretary of the Company. The Company provides the Directors with sufficient resources to perform their duties and the Directors may seek independent professional advice at the Company's cost, where they consider relevant and necessary to the discharge of their duties.

The Board has delegated to the management of the Group the authority and responsibilities for implementing the decisions and strategies approved by the Board and managing day-to-day operations of the Group under the leadership and guidance of the Board. The Board reserves for its decision on all major matters of the Group, including the approval and monitoring of the Group's major acquisitions and disposals, major capital investments, dividend policy, recommendation, appointment, retirement and remuneration policy of the Directors and senior management, and other significant operational and financial matters. The Board will review the delegation arrangements on a periodic basis to ensure they remain appropriate to the needs of the Group.

The Board has also established three Board committees, namely, the audit committee, the remuneration committee and the nomination committee, and delegated to these Board committees certain specific responsibilities as set out in their respective written terms of reference approved by the Board. Further details of these Board committees are set out under the heading "Board Committees".

The Company arranged induction programme for all newly appointed Directors and provided them with comprehensive corporate information and business briefings on their appointments to familiarise them with the Group's operations and business, as well as their responsibilities as a Director.

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Composition of the Board

As at the date of this annual report, the Board comprises five Directors, including two executive Directors and three independent non-executive Directors. Members of the Board are:

Executive Directors

Mr. Chen Jian *(Chairman)*
Ms. Zhang Yun *(Vice Chairlady and Chief Executive Officer)*

Independent non-executive Directors

Mr. Lee Kwan Hung
Mr. Chow Siu Lui *(appointed on 1 December 2016)*
Mr. Yuan Bo
Mr. Ho Pak Tai Patrick *(resigned on 1 January 2017)*

During the year ended 31 December 2016, the Board's composition has at all time satisfied the requirements of Rule 3.10 and 3.10(A) of the Listing Rules, which stipulate that there should be at least three independent non-executive Directors (representing at least one-third of the Board), and of whom at least one possess appropriate professional qualifications or accounting or related financial management expertise.

The Company has received confirmation from each of the independent non-executive Directors regarding his independence pursuant to the requirements set out in Rule 3.13 of the Listing Rules. Based on these confirmations, the Board considers that all of the independent non-executive Directors to be independent.

The biographies of the Directors and their relationship with each other are set out under the section headed "Directors and Senior Management Profile" on pages 12 to 14 of this annual report.

Appointment and Re-election of Directors

The Board has established the nomination committee, which is responsible for identifying appropriate candidates with suitable skills and experience for consideration by the Board. Further details of the nomination committee are set out under the heading "Nomination Committee". All independent non-executive Directors are appointed for an initial term of one year and subject to terms of renewal and termination after their first year of appointments. According to the articles of association of the Company, all Directors are subject to retirement by rotation at least once every three years and any new Directors appointed to fill a casual vacancy or as an addition to the Board shall retire at the first general meeting after appointment. The retiring Directors are eligible for re-election at the general meeting at which he/she retires.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the year ended 31 December 2016.

Board Meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. Notices of regular meetings are given to all Directors at least 14 days before the meeting is held, while notices of special Board meetings are given as soon as reasonable and practicable in the circumstances.

The company secretary is responsible for preparing the agenda and minutes for Board meetings. Agenda and discussion paper are provided to the Directors in advance of the meetings to allow them sufficient time to understand and consider the matters to be discussed in the meetings. The Directors may request to include matters in the agenda through the company secretary.

Draft Board meeting minutes containing detailed information of matters discussed, decisions reached, and any concerns raised or dissenting views expressed by the Directors at the meetings are dispatched to all Directors for their comments within a reasonable period of time after the meetings. Final version of Board meeting minutes are submitted to the Board for formal adoption after their comments. The adopted minutes are kept by the company secretary and are open for inspection by Directors upon their requests.

Induction and Continuing Development of Directors

Directors shall keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Group. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory regulatory obligations of a director of a listed company. The Group also provided briefings and other training to develop and refresh Directors' knowledge and skills.

Under code provision A.6.5, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. On 7 December 2016, a briefing session was organized for Directors to provide the Directors information on the financial management and risks management aspects. During the year ended 31 December 2016, the Directors also participated in the following trainings:

Directors	Types of training (notes)
Executive Directors	
Mr. Chen Jian	C
Ms. Zhang Yun	A and C
Independent non-executive Directors	
Mr. Lee Kwan Hung	A, B and C
Mr. Chow Siu Lui	A and C
Mr. Yuan Bo	C
Mr. Ho Pak Tai Patrick	A and C

Notes

A: attending seminars and/or conferences and/or forums

B: giving talks at seminars and/or conferences and/or forums

C: reading newspapers, journals and updates relating to the Group's businesses, economy, general businesses, or Directors' duties and responsibilities, etc.

BOARD COMMITTEES

The Board has established the audit committee, the remuneration committee, the nomination committee, with approved written terms of reference to explain their respective role and the authority delegated to them by the Board. The terms of reference and membership of the Board committees are disclosed in full on the Company's website and are also available upon request to the company secretary. The Board committees are provided with sufficient resources to discharge their duties, and as they considered necessary, they may obtain independent professional advice at the Company's cost on any matters within their terms of reference.

Audit Committee

The audit committee was established on 11 November 2009 and is regulated by written terms of reference approved by the Board. As at the date of this annual report, the audit committee comprises all three independent non-executive Directors, namely Mr. Chow Siu Lui (chairman of the audit committee), Mr. Lee Kwan Hung and Mr. Yuan Bo.

The principal roles and functions of the audit committee are:

- to oversee the relation with the external auditors, which includes making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;

- to review the Group's financial information, which includes monitoring the integrity of financial statements, the annual report and accounts, and half year report and reviewing significant financial reporting judgements contained therein; and

- to oversee the Group's financial reporting system, risk management and internal control systems.

The audit committee held three meetings during the year ended 31 December 2016, at which the financial results and reports, financial reporting and compliance procedures, risk management and internal control matters and the independence and the appointment of the external auditors were reviewed and discussed.

Remuneration Committee

The remuneration committee was established on 11 November 2009 and is regulated by written terms of reference approved by the Board. As at the date of this annual report, the remuneration committee comprises all three independent non-executive Directors, namely Mr. Yuan Bo (chairman of the remuneration committee), Mr. Lee Kwan Hung and Mr. Chow Siu Lui, and one executive Director, Mr. Chen Jian, who is also the chairman the Company.

The principal roles and functions of the remuneration committee are:

- to make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- to have the delegated responsibility to determine the specific remuneration package of all executive Directors and senior management; and

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The remuneration committee held two meetings during the year ended 31 December 2016 to review the remuneration packages of the Directors and senior management. Members of the remuneration committee were abstained from voting on resolutions related to his own remuneration package in the meeting.

The compensation structure for the Directors consists of the fixed and variable components. The fixed component mainly comprises salary, retirement benefit scheme contributions and other allowances which are determined with reference to factors including their skills, knowledge and experience, the time commitment, duties and responsibilities required of them and the prevailing market conditions. The variable component comprises bonuses and share options granted under the Company's share option scheme, which are performance-based incentives to the Directors and senior management for aligning the individual and corporate goals and objectives.

Nomination Committee

The nomination committee was established on 11 November 2009 with written terms of reference approved by the Board. As at the date of this annual report, the nomination committee comprises all three independent non-executive Directors, namely Mr. Lee Kwan Hung (chairman of the nomination committee), Mr. Chow Siu Lui and Mr. Yuan Bo and one executive Director, Ms. Zhang Yun, who is also the Chief Executive Officer of the Company.

The principal roles and functions of the nomination committee are:

- to review the structure, size and diversity of the Board;
- to identify and nominate Board candidates for directorship;
- to assess the independence of the independent non-executive Directors; and
- to make recommendations to the Board on matters relating to the appointment, re-appointment, and succession planning for Directors in particular the chairman and chief executive officer.

The nomination committee held one meeting during the year ended 31 December 2016, to review the nomination procedures and process for the nomination of Directors, the structure, size and diversity of the Board, assess the independence of the independent non-executive Directors and make recommendation to the Board on reappointment of Directors.

Summary of Board Diversity Policy

According to the Board diversity policy of the Company, selection of candidates will be based on a range of diversity perspectives, including but not limited to, gender, age, culture and educational background, ethnicity, professional experience, skills, knowledge and length of service in the Company etc. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

ATTENDANCE RECORDS AND MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2016 are set out as below:

	No. of meetings attended/held				
	Annual general meeting	Board meetings	Audit committee meetings	Remuneration committee meetings	Nomination committee meeting
No. of meetings	1	5	3	2	1
Executive Directors					
Mr. Chen Jian	1/1	5/5	N/A	2/2	(note 1) 1/1
Ms. Zhang Yun	1/1	5/5	(note 1) 3/3	(note 1) 2/2	1/1
Independent non-executive Directors					
Mr. Lee Kwan Hung (note 2)	1/1	5/5	2/2	2/2	1/1
Mr. Chow Siu Lui (note 3)	0/0	1/1	1/1	0/0	0/0
Mr. Yuan Bo	1/1	4/5	3/3	1/2	1/1
Mr. Ho Pak Tai Patrick (note 4)	1/1	4/5	3/3	2/2	1/1

Notes:

1. Attended on voluntary basis.

2. Mr. Lee Kwan Hung resigned as a member of the Audit Committee on 1 December 2016, and was appointed again as a member of the Audit Committee on 1 January 2017.

3. Mr. Chow Siu Lui was appointed as independent non-executive Director and the chairman of the Audit Committee on 1 December 2016.

4. Mr. Ho Pak Tai Patrick resigned as the chairman of Audit Committee on 1 December 2016, and resigned as independent non-executive Director and a member of the Audit Committee on 1 January 2017, respectively.

COMPANY SECRETARY

Mr. Siu Hin Leung was appointed as the company secretary of the Company on 24 April 2012. The biographical details of Mr. Siu are set out under the section headed "Senior Management". He has taken not less than 15 hours of relevant professional training during the year ended 31 December 2016.

EXTERNAL AUDITORS

Deloitte Touche Tohmatsu has been appointed as the external auditors of the Company for the year ended 31 December 2016. The audit committee has the same view with the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

For the year ended 31 December 2016, the total remuneration in respect of services provided by the external auditors of the Company amounted to approximately RMB2,130,000, which can be analysed as follows:

	RMB'000
Audit services	2,000
Interim review services	130

INTERNAL CONTROL, RISK MANAGEMENT AND FINANCIAL REPORTING

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets against unauthorised use or disposition. The Board has conducted a review of the effectiveness of the internal control system of the Group. The Group has adopted comprehensive procedures with duly assigned levels of authority in areas of financial and operational controls, and risk management to ensure that its assets and resources remain secure at all times.

The role of the Audit Committee is, through dialogue with management, and the use of risk management and internal audit functions, to review the effectiveness of the internal control systems and to report to the Board any significant risks and issues.

The risk management function is responsible for analysing possible risks that may affect the Group's business operations; find measures to eliminate, prevent and control risk. The Group has developed a risk management system which is an on-going process for identifying, evaluating and managing the significant risks associated with the business of the Group. Designated responsible persons of the relevant business units are responsible to identify, assess, manage the relevant risks covering all material controls including financial, operational and compliance controls and execute mitigation measures. Results of risk evaluation will be reported to the Board through risk management function which will continuously oversee the effectiveness and progress to ensure the relevant control measures be completed within timeline.

The Internal Audit Department has full and complete access to any of the Group's records, physical properties and personnel relevant to a review. The authority of the department is defined by the Audit Committee and reports administratively to the chief executive officer of the Company ("**CEO**") and functionally to the Audit Committee. The Internal Audit Department has been carried out internal control review on a regular basis. It is responsible for evaluating the effectiveness of procedures in relation to risk management and internal control systems and submitting their reports of findings to the Audit Committee annually. The Board regularly receives and reviews updates giving an assessment of the Group's performance.

The Group also performs daily and/or regular operation compliance audits in accordance with the required compliance procedures set by certain vendors and/or internal control procedures set by the management of the Group to provide an objective evaluation of the quality and effectiveness of the relevant operation cycles. The findings of the operation compliance audit will be reported to the CEO and the relevant vendors. The Internal Audit Department will perform checks and reviews on the works done by the operation compliance audit function.

The Audit Committee provides independent review on effectiveness of the risk management and internal control systems of the Group and gives their recommendation to the Board. The Board is responsible for reviewing the internal audit report and approving policies and procedures designed by the management. The Board believes that the existing risk management and internal control systems are adequate and effective. The Board also reviewed the resources, qualification and experience of staff of the Group's accounting and financial reporting function and their training schemes and budget and was satisfied with their adequacy.

The Board acknowledges its responsibility for the preparation of the consolidated financial statements which aim to give a true and fair view of the Group's state of affairs. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The reporting responsibility of the external auditors on the Group's consolidated financial statements are set out in the section headed "Independent Auditor's Report on pages 49 and 55 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of effective communication with the shareholders of the Company. The Company has established a number of communication channels to maintain an ongoing dialogue with its shareholders and enhancing the transparency of the Group. These include (i) holding annual and extraordinary general meetings to provide a forum for shareholders to communicate directly with the Board and the Board committees; (ii) distributing corporate documents and releasing announcements to disseminate the Group's latest information to the shareholders; and (iii) maintaining the Company's website to provide an electronic means of communication with the shareholders and the public.

Shareholders and other interested parties are welcome to access the Group's information from the Company's website at www.futong.com.hk. The Group's corporate information including terms of reference of the Board committees, the Group's financial reports, announcements and circulars are available on the website. In order to enhance shareholders' understanding of the Group's business performance and development, the Company will continue to improve its corporate disclosure on the Company's website and the communication with its shareholders.

SHAREHOLDERS' RIGHTS

Pursuant to Article 64 of the Articles, extraordinary general meeting may be convened on the requisition of one or more shareholder(s) holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

If a shareholder wishes to propose a person other than a retiring Director or the Director proposed for election as a Director at any general meeting (including the annual general meeting), the shareholder should lodge the notices with the Company Secretary at the Company's head office in Hong Kong at Rooms 2406-2412, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The notices shall be lodged in the period commencing no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such general meeting, provided that such period shall be at least seven days. The Company shall publish an announcement and/or issue a supplemental circular upon receipt of the notices from such shareholder in accordance with Rule 13.70 of the Listing Rules. Shareholders' enquiries put to the Board or any proposals to be put forward at general meetings can be emailed to contact@futong.com.hk or by mail to:

Rooms 2406-2412, 24th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended 31 December 2016.

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 16 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 56 to 116 of this annual report.

The Board recommends the payment of a final dividend for the year ended 31 December 2016 of HK1.9 cents (2015: HK2.8 cents) per share.

Subject to approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on or about 12 June 2017 to shareholders whose names appear on the register of members of the Company on 31 May 2017.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years is set out on page 117 of this annual report.

SUPPLEMENTAL INFORMATION FOR BUSINESS REVIEW

A fair review of the Group's business, particulars of important events affecting the Group that have occurred since the end of the financial year, an analysis using financial key performance indicators and an indication of likely future development in the Group's business are set out in "Management Discussion and Analysis" section with headings "Business Review", "Financial Review" and "Outlook" on pages 4 to 5, pages 5 to 8 and pages 10 to 11 of this annual report, respectively. An "Environmental, Social and Governance Report" is included on pages 40 to 48, which included a discussion on the Group's environmental policies and performance, the key relationships with its employees, customers and suppliers and others that have a significant impact on the Group.

Principal Risks and Uncertainties Facing the Group

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses, the Directors believe that the factors set out below are considered to be the principal risks faced by the Group. They do not comprise all of the risks associated with our business and are not set out in priority order, and we acknowledge that additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Reliance on a small number of key suppliers and products

The Group is an authorized distributor of certain enterprise IT products in the PRC for such as IBM, Huawei and Oracle. The Group's five largest suppliers (on group basis) accounted for approximately 82.4% and 87.1% of the Group's total purchases for each of the years ended 31 December 2016 and 31 December 2015, respectively.

Reliance on a small number of suppliers generally involves several risks, including the possibility of defective products from a supplier which does not provide warranty indemnity, loss of market share of supplier's products, failure of supplier's products to keep updates on IT technology change or consumer preference and a shortage of product supply. Furthermore, some of the non-exclusive distribution agreements with certain of the Group's major suppliers are renewed annually and some of the distribution arrangements may be terminated by the suppliers. If there are significant price fluctuations for such products, any supplier fails to satisfy the requirements of the Group or the Group's relationship with such supplier is terminated or deteriorated for any reason, the Group's revenue and profitability could be materially and adversely affected.

The Group has been continuously diversifying its product bases by sourcing enterprises IT products from a larger variety of suppliers to lower the reliance on a particular group of suppliers.

The Group may not be able to keep updates on IT technology change, its suppliers' technologies and consumer preference

The market for the products of the Group's suppliers is characterized by rapidly-changing IT technology and introduction of new products. The demand for enterprise IT products and services are also subject to business cycles, which may rise or fall along with overall economic growth and business investment environment. The success of the Group will depend upon its technical know-how on these new IT technologies, product features and implementation methods, its ability to respond and adapt quickly to IT technology change and business cycles, as well as its capability to understand the changing needs, preferences and requirements of its customers. If the Group fails to keep updates on IT technology change and introduction of new products, or keep pace with new developments and trends in the IT market and the demands of its customers, its ability to respond effectively to customer demands may be affected, which may undermine the Group's future development and have an adverse impact on the Group's business and financial results.

The management of the Group have extensive experience in the industry which it operates and will closely monitor the change in market trend of the industry. The Group will employ appropriate professional staff possessing the updated technical know-how of the field.

Inventory risks

The inventory of the Group consists mainly of IT products and other components. These comprised approximately 20.6% and 21.2% of the Group's current assets as at the years ended 31 December 2016 and 31 December 2015 respectively.

In practice, the Group maintains its inventory at a certain level with reference to its sales plan. As such, if there is any sudden change in the demand of enterprise IT products, the Group may face an inventory risk if stock levels are not properly monitored or managed. Should the Group fail to manage its inventory properly, provisions will have to be made for slow-moving stocks, which may adversely affect the Group's profitability.

The Group has implemented strict control on the inventory level and has closely monitored the market trend and customer needs before placing purchase orders. The Group also has regular review on the inventory aging to minimise the risk of slow-moving stocks.

Trade and other receivables and liquidity risks

Trade and other receivables accounted for approximately 58.5% and 46.7% of the Group's total assets as at the years ended 31 December 2016 and 31 December 2015 respectively. There may be a risk of delay in payment by the Group's customers from their respective credit period, which in turn may result in an impairment loss provision. There is no assurance that the Group will be able to fully recover its receivables from the customers or their settlements are made on a timely manner. In the event the settlements from the customers are not made in full or not on a timely manner, the financial position, profitability and cash flow of the Group may be adversely affected.

Furthermore, the Group is generally required to purchase its products from its suppliers first before it sells to its customers. This means that the Group will generally have to pay its suppliers first before it collects payment from its customers. There is a risk that any mismatch between the time the Group sources its products and the time it collects payment from its customers may affect the Group's liquidity if it is not managed properly. If the Group is unable to maintain a sufficient level of liquidity in its business operations, its financial condition and performance may also be adversely affected.

The management have performed regular reviews and implement stringent control measures on trade receivables with a view to ensuring the recovery of trade receivables on the due dates and closely monitoring the Group's liquidity.

Foreign exchange considerations

The exchange rates for RMB against foreign currencies, including US$ and HK$, are susceptible to movements based on external factors and there can be no assurance that RMB may not be subject to devaluation. As the Group's revenue and purchases are primarily denominated in RMB and US$, fluctuations in exchange rates may adversely affect the value of the Group's net assets and earnings. Furthermore, the Group may incur foreign currency denominated borrowings which may expose the Group to currency risk. Any adverse fluctuations in exchange rates among these foreign currencies may materially and adversely affect the Group's results of operations. Although the Group may, from time to time, enter into hedging transactions to mitigate its foreign currency exchange risk exposure, the effectiveness of such hedges may be limited and the Group may not be able to successfully hedge its exposure.

The management have monitored closely its foreign currency exposure and requirements and will arrange hedging facilities when necessary, or take other appropriate actions to minimise its foreign currency exchange risk exposure.

Reduced spending on enterprise IT products and services may affect the Group's business

The Group's business and revenue growth not only depends on the Group's ability to attract customers to purchase its enterprise IT products and services, but also on the level of spending on enterprise IT products, systems and solutions of its customers.

Furthermore, the general health of the PRC economy will also have an effect on the level of spending on enterprise IT products and services of consumers in the PRC as a whole. Any general economic, business or industry conditions that cause customers or potential customers to reduce or delay their investments in enterprise IT products and services could harm the Group's business. If there is a significant downturn in the PRC market or a significant reduction in consumer demand in the PRC for products or services offered by the Group, the Group's business may be adversely affected.

The Group will closely monitor the general economic of the PRC and any trend of reduction in spending of enterprises IT products and services of its customers or potential customers, take timely actions to react to the changes, such as modifying the Group's business direction to accommodate for the changes.

Political and economic policies of the PRC government could affect the Group's business

With the commencement of the PRC government's efforts to reform the Chinese economic system in the late 1970s, the PRC government has placed increasing emphasis on the utilization of market forces to develop the PRC economy. Over the last four decades, the PRC government's reform measures have resulted in the PRC economy experiencing significant growth and social progress. However, any revision or modification to the economic and political strategies and policies of the PRC government could have a material adverse effect on the overall development of the IT products and services market in the PRC. With all of the Group's main operating assets and customers located in China, the Group's operations and financial results could be adversely affected by any stagnation in the development of this market in the PRC. There is no guarantee that the PRC government will not impose economic and regulatory controls that would harm the Group's business.

The Group will closely monitor if there any change in economic and regulatory controls imposed by the PRC government that would harm to the Group's business, and take timely actions to react to the changes, such as modifying the Group's the strategic direction to accommodate for the changes.

Compliance with the Relevant Laws and Regulations

The Group strives to comply in all material respects with the relevant laws and regulations which are regarded as having a significant impact on the Group, and has not come across incidence of material breach or non-compliance during the year under review.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25(a) to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 58 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to approximately RMB341.2 million.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2016 are set out in note 24 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers, on individual entity basis, accounted for approximately 13.0% of the total revenue for the year and sales to the largest customer, on individual entity basis, included therein amounted to approximately 3.4%. Purchases from the Group's five largest suppliers, on individual entity basis, accounted for approximately 82.4% of the total purchases for the year and purchases from the largest supplier, on individual entity basis, included therein amounted to approximately 37.4%.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued share of the Company) has any interest in the Group's five largest customers and suppliers.

DIRECTORS

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

Executive Directors
Mr. Chen Jian
Ms. Zhang Yun

Independent non-executive Directors
Mr. Lee Kwan Hung
Mr. Chow Siu Lui *(appointed on 1 December 2016)*
Mr. Yuan Bo
Mr. Ho Pak Tai Patrick *(resigned on 1 January 2017)*

In accordance with the Company's articles of association, one-third of the Directors are subject to retirement by rotation and re-election at each annual general meeting of the Company and any new Directors appointed to fill a casual vacancy or as an addition to the Board shall retire at the first general meeting after appointment. Mr. Chen Jian, Mr. Lee Kwan Hung and Mr. Chow Siu Lui will retire by rotation. All of them, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received confirmations from each of the independent non-executive Directors regarding his independence pursuant to the requirements set out in Rule 3.13 of the Listing Rules. Based on these confirmations, the Board considers that all of the independent non-executive Directors to be independent.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 12 to 14 of this annual report.

DIRECTORS' SERVICE AGREEMENT

Each of the executive Directors, namely Mr. Chen Jian and Ms. Zhang Yun, has respectively entered into a service agreement with the Company for an initial term of three years commencing from 11 November 2009 and thereafter renewable automatically for successive terms of one year each, unless terminated by either the Company or the Directors by serving not less than three months' notice in writing expiring at the end of the initial term or at any time thereafter.

Save as disclosed above, none of the Directors, including those to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

Details of Directors' remuneration are set out in note 10 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACT

Details of the connected transactions and the related party transactions are set out on pages 37 to 38 and pages 107 to 110 of this annual report respectively. Save for the above, no other Director or entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in the shares of the Company:

Name of Director	Capacity/nature of interest	Number of Ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jian	Beneficial owner/interest in controlled corporations	219,208,000 (Notes 1, 2, 3 and 4)	70.43
Zhang Yun	Beneficial owner/interest in controlled corporation	42,869,650 (Notes 2 and 5)	13.77

(ii) Long positions in the underlying shares of the Company:

Name of Director	Capacity/nature of interest	Number of underlying shares held	Approximate percentage of the Company's issued share capital (%)
Lee Kwan Hung	Beneficial owner	600,000 (Note 6)	0.19
Yuan Bo	Beneficial owner	600,000 (Note 6)	0.19
Ho Pak Tai Patrick	Beneficial owner	600,000 (Note 6)	0.19

(iii) Long positions in the shares of China Group Associates Limited:

Name of Director	Capacity/nature of interest	Number of shares held	Approximate percentage of issued share capital (%)
Chen Jian	Beneficial owner	100	100.00

Notes:

1. 153,947,250 of these shares are held by China Group Associates Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by China Group Associates Limited.

2. 42,631,650 of these shares are held by Rich China Investments And Trading Ltd., the entire issued share capital of which is owned as to approximately 66.67% by Mr. Chen Jian and approximately 33.33% by Ms. Zhang Yun. By virtue of the SFO, both Mr. Chen Jian and Ms. Zhang Yun are deemed to be interested in the shares held by Rich China Investments And Trading Ltd..

3. 21,435,100 of these shares are held by Rich World Development Ltd., the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by Rich World Development Ltd..

4. 1,194,000 shares of the Company are held by Mr. Chen Jian in his personal interest.

5. 238,000 shares of the Company are held by Ms. Zhang Yun in her personal interest.

6. These shares are derived from the interest in share options granted by the Company, details of which are set out in the section headed "Share Option Scheme".

Save as disclosed above and those as disclosed under the heading "Discloseable Interests and Short Positions of Substantial Shareholders under the SFO" below, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2016.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The basis of eligibility of any of the eligible persons to the grant of share options shall be determined by the Board from time to time on the basis of their contribution or potential contribution to the development and growth of the Group. The Share Option Scheme became effective on 11 November 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board, which must not be more than 10 years from the date of the grant. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share.

The details of the principal terms and conditions of the Share Option Scheme were summarised in the section headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 24 November 2009 (the "**Prospectus**").

On 15 June 2011, 1,900,000 share options were granted by the Company under the Share Option Scheme. As at 22 March 2017, being the date of this annual report of the Company ("**Annual Report Date**"), there were 900,000 options outstanding.

On 24 August 2015, 900,000 share options were granted by the Company under the Share Option Scheme. As at the Annual Report Date, there were 900,000 options outstanding.

On 18 January 2016, 2,200,000 share options were granted by the Company under the Share Option Scheme. As at the Annual Report Date, there were 2,200,000 options outstanding.

On 14 October 2016, 1,200,000 share options were granted by the Company under the Share Option Scheme. As at the Annual Report Date, there were 1,200,000 options outstanding.

The total number of outstanding share options as at the Annual Report Date was 5,200,000 which represent approximately 1.67% of the total number of issued shares of the Company as at that date.

As at the Annual Report Date, the total number of shares of the Company available for issue pursuant to the grant of further options under the Share Option Scheme is 24,800,000 shares, representing approximately 7.97% of the total number of issued shares of the Company as at the Annual Report Date.

DETAILS OF SHARE OPTIONS GRANTED BY THE COMPANY

Category	Date of grant	Exercise period	Exercise price HK$	Number of share options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2016
Directors									
Mr. Lee Kwan Hung	15 June 2011	15 December 2011-14 June 2021	1.81 (Note 1)	300,000	–	–	–	–	300,000
	24 August 2015	24 August 2015-23 August 2025	1.172 (Note 2)	300,000	–	–	–	–	300,000
Mr. Yuan Bo	15 June 2011	15 December 2011-14 June 2021	1.81 (Note 1)	300,000	–	–	–	–	300,000
	24 August 2015	24 August 2015-23 August 2025	1.172 (Note 2)	300,000	–	–	–	–	300,000
Mr. Ho Pak Tai Patrick	15 June 2011	15 December 2011-14 June 2021	1.81 (Note 1 and 3)	300,000	–	–	–	–	300,000
	24 August 2015	24 August 2015-23 August 2025	1.172 (Note 2 and 3)	300,000	–	–	–	–	300,000
Sub-total				1,800,000	–	–	–	–	1,800,000
Employees	15 June 2011	15 December 2011-14 June 2021 (Note 4)	1.81 (Note 1)	–	–	–	–	–	–
	18 January 2016	18 January 2016-17 January 2026 (Note 5)	1.004 (Note 5)	–	2,200,000	–	–	–	2,200,000
	14 October 2016	14 October 2016 13 October 2026 (Note 6)	1.25 (Note 6)	–	1,200,000	–	–	–	1,200,000
Total				1,800,000	3,400,000	–	–	–	5,200,000

Notes:

1. The closing price of the shares of the Company on the date of grant was HK$1.8.

2. The closing price of the shares of the Company on the date of grant was HK$0.9.

3. Mr. Ho Pak Tai Patrick resigned on 1 January 2017, the Board has approved to extend the lapse period of the options granted to him, to the extend of not already exercised, to 31 December 2017.

4. The options are exercisable from 15 December 2011 to 14 June 2021 (both days inclusive) subject to the following vesting periods.

   (1) up to 30% of the options commencing on 15 December 2011;

   (2) up to 60% of the options commencing on 15 December 2012; and

   (3) up to 100% of the options commencing on 15 December 2013.

5. The options are exercisable from 18 January 2016 to 17 January 2026 (both days inclusive) subject to the following vesting periods.

   (1) up to 30% of the options commencing on 18 January 2016;

   (2) up to 60% of the options commencing on 18 January 2017; and

   (3) up to 100% of the options commencing on 18 January 2018.

   The closing price of the shares of the Company on the date of grant was HK$0.990.

6. The options are exercisable from 14 October 2016 to 13 October 2026 (both days inclusive) subject to the following vesting periods.

   (1) up to 30% of the options commencing on 14 October 2016;

   (2) up to 60% of the options commencing on 14 October 2017; and

   (3) up to 100% of the options commencing on 14 October 2018.

   The closing price of the shares of the Company on the date of grant was HK$1.25.

Details of the value of share options granted are set out in note 26 to the consolidated financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS UNDER THE SFO

(A) Substantial shareholders

As at 31 December 2016, the following persons or corporations (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or chief executive of the Company:

Long positions in the shares of the Company:

Name	Capacity/nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
China Group Associates Limited (Note 1)	Beneficial owner	153,947,250	49.46
Rich China Investments And Trading Ltd. (Note 2)	Beneficial owner	42,631,650	13.70
Ms. Zhang Xin (Note 3)	Interest of spouse	219,208,000	70.43

(B) Other persons

As at 31 December 2016, save for the person or entities disclosed in sub-section (A) above, the following persons or corporations (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or chief executive of the Company:

Long positions in the shares of the Company:

Name	Capacity/nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Mr. Li Xiaoyong	Beneficial owner	26,440,000	8.49
Rich World Development Ltd. (Note 4)	Beneficial owner	21,435,100	6.89

Notes:

1. China Group Associates Limited is a company incorporated in the British Virgin Islands ("**BVI**") with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of China Group Associates Limited.

2. Rich China Investments And Trading Ltd. is a company incorporated in the BVI with limited liability which is owned as to approximately 66.67% by Mr. Chen Jian and approximately 33.33% by Ms. Zhang Yun. Ms. Zhang Yun is the sole director of Rich China Investments And Trading Ltd..

3. Ms. Zhang Xin is the spouse of Mr. Chen Jian. Under the SFO, Ms. Zhang Xin is taken to be interested in the same number of shares in which Mr. Chen Jian is interested.

4. Rich World Development Ltd. is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of Rich World Development Ltd..

Save as disclosed above, there was no person or corporation, other than a Director or chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO as at 31 December 2016.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year, save as those disclosed in the Prospectus and the announcement of the Company dated 21 December 2015, the Directors were not aware of any business or interest of the Directors or any substantial shareholder of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

The information relating to the Directors' interest in a competing business was disclosed in the Prospectus and the announcement of the Company dated 21 December 2015. There is no change in details on the information relating to the Directors' interest in a competing business, which was previously disclosed in the Prospectus and the announcement of the Company dated 21 December 2015.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, there was no continuing connected transactions transacted during the year ended 31 December 2016.

Types of transactions	**Annual cap** RMB'000	**Actual amount** RMB'000
Connected transactions entered into with 北京深思軟件股份有限公司 (Beijing Deep Thought Software Co., Ltd.) ("**Beijing Deep Thought**") – Purchase and sales of goods and provision of services	13,500	Nil

On 21 December 2015, the Company entered into the purchase and supply agreement in relation to the sale and purchase of enterprise IT products and related IT services ("**2015 Purchase and Supply Agreement**") with Beijing Deep Thought, pursuant to which the Group agreed to supply and purchase enterprise IT products and related IT services to and from Beijing Deep Thought on such terms and conditions and at such prices to be determined from time to time and on a case by case basis after arm's length negotiations provided that (a) in respect of products and services supplied by the Group, such terms and conditions of each contract or order shall be on normal commercial terms and on terms which are no more favourable to Beijing Deep Thought than those offered by the Group to purchasers who are independent third party for such IT products and related IT services of comparable quantity, and such price shall be determined with reference to the prevailing market price; (b) in respect of products and services purchased by the Group, such terms and conditions of each contract or order shall be on normal commercial terms and on terms which are no less favourable to the Group than those offered by Beijing Deep Thought to its third party purchasers who are independent of it and its connected person for such IT products and related IT services of comparable quantity, and such price shall be determined with reference to the prevailing market price; (c) the purchase price payable by Beijing Deep Thought in respect of purchases shall be payable by Beijing Deep Thought within 30 days after the date of the relevant invoice issued by the relevant member of the Group, or such longer period as the parties may agree; and (d) the purchase price payable by the relevant member of the Group in respect of purchases shall be payable by such member of the Group within 90 days after the date of the relevant invoice issued by Beijing Deep Thought, or such longer period as the parties may agree.

Beijing Deep Thought is owned as to approximately 72.89% by Mr. Chen Jian, a Controlling Shareholder and an executive Director and is a connected person of the Company. The transactions contemplated under the 2015 Purchase and Supply Agreement constitute continuing connected transaction of the Company.

The Group is principally engaged in the provision of enterprises IT infrastructure products, IT services and solutions in the PRC. The Group is pursuing to expand its exposure in the IT solutions, products and technical support services market in the PRC. As may be requested from the Group's customers, the Group may occasionally source enterprise IT products which are not among the products distributed by the Group from other suppliers. As Beijing Deep Thought is a distributor of some IT products which are not offered by the Group, the Group has been purchasing those IT products from Beijing Deep Thought upon request from its customers.

The Directors believe that through business cooperation with Beijing Deep Thought, the Group's sales and distribution network coverage can be further extended, which is beneficial to the business development and operating results of the Group.

Related party transactions for the year ended 31 December 2016 set out in note 28 to the financial statements are not considered to be connected transactions under Chapter 14A of the Listing Rules.

The Company has complied with the relevant requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, there are no other transactions of the Company which require disclosure in the annual report in accordance with the Listing Rules.

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.

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on pages 15 to 24 of this annual report.

AUDITORS

Messrs Deloitte Touche Tohmatsu was appointed as auditors of the Company for the year ended 31 December 2016.

Messrs Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Messrs Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board
Futong Technology Development Holdings Limited
Chen Jian
Chairman
Hong Kong, 22 March 2017

Environmental, Social and Governance Report

Over the years, while creating product value and fulfilling its economic responsibilities, the Group does not forget its corporate social and environmental responsibilities, and strives to obtain satisfaction among customers, suppliers, employees, environment, society and other stakeholders.

The Group has complied with the provisions set out in Appendix 27 "Environmental, Social and Governance Reporting Guide" for the year ended 31 December 2016.

PROVIDE QUALITY, SAFE PRODUCTS AND SERVICES, ENHANCE CUSTOMER SATISFACTION

The Group has consistently committed to enhance user experience in products and services. We have established a healthy and effective model of cooperation with Huawei, IBM, Oracle and other international leading IT manufacturers. Relying on the product, service, technical capabilities and the advantages of the brand names of the manufacturers, in terms of value-added distribution, we provide value-added system integration services ranging from pre-sales technical program advice to after-sales product installation, tuning, optimization, operation and maintenance, and provide customers with more comprehensive, high quality and convenient services. Through close cooperation and good relationship established with the manufacturers, the Group provides all-around training to its employees to enhance their product and market knowledge, and provides them with opportunities for further education and promotion. Meanwhile, for the distribution business, we actively improve downstream channel system by regularly organizing marketing activities, participating in exhibitions and printing brochures and other means to promote our products and services to customers, thereby further consolidating and exploring national channel partners, and establishing a good green sales ecosystem.

In 2016, the Group and Huawei jointly organized 185 marketing activities, involving more than 2,000 channels and enterprises.

Industry conferences, at which industry information was shared and products and services of IBM were introduced to customers

In order to enhance the awareness of Oracle products in the industry and cooperate with the promotion of new products by the manufacturer, a number of promotional activities were held together with the manufacturer in Shenzhen, Beijing and other places in 2016, during which Futong's staff had opportunities to learn.

In respect of our self-branded products and services, we have implemented strict product development management policies in accordance to relevant international and national guidelines for IT products and services management, and continue to invest in research and development.

In the business ecosystem of the Group, in addition to IT distribution business and system integration business, the Group also actively develops self-branded products and deploys cloud business. A computer software copyright registration certificate has been obtained for our self-developed Cloudoors cloud platform management system (CPMS) V3.0. Our commercialised services mainly focus on five areas; disaster recovery, data migration, business intelligence and big data operation, system reinforcement, and resource integration, which cover the entire life cycle of the enterprise information process. We actively advocate the concept of comprehensive value-added services and with these five products and services at its core, we strive to provide value-added services and solutions. At the 2016 China Cloud Computing Ecosystem Summit, the Group was recognised as one of the 2016 Top Ten IT Value-added Distributors for its channel resources established over the years and professional integrated services. In addition, at the "Internet Plus SME Innovation Conference" jointly held by China Center for Information Industry Development of the Ministry of Industry and Information and China Centre for Promotion of SME Development of the Ministry of Industry and Information, the Group won the "2015-2016 China Internet Plus Industry Innovation Enterprise Award", which has demonstrated our recognition by government authorities and our provision of safe and reliable services to customers.

As at the end of 2016, the Group had a total of 83 software copyrights and 32 software product test reports which were still valid. In order to enhance the brand awareness and the usability of our own products, we actively communicate with various vertical industries, participate in a number of user market activities, invite experts to participate in seminars, and actively improve and optimize our self-branded product features to enhance customers' user experience; During the process of serving customers, we strictly comply with the Customer Information Act and its provisions, and require employees to use customer information only for providing customers with better products, services and for technical purposes. We are prohibited from disclosuring or providing customer information to third-parties, unless customer consent is obtained or required by law.

In respect of customer service, in order to provide more convenient, quality and efficient services to users, we continue to broaden our business network. By the end of 2016, we have deployed over 20 subsidiaries and offices, with service network coverage across China.

As a trusted IT service provider over the years, the Group abides by laws and regulations and strictly complies with the standards and regulations applicable to the products and services provided by the Group. We cooperates with partners in their audits each year in accordance to their rules and the relevant industry rules regarding products and services, and experienced no event of serious violation of product and service rules, related litigations and disputes in 2016.

RESPONSIBLE PROCUREMENT

The Group deeply appreciates the importance of environmental protection and social responsibility. In addition to promoting sustainable business development, we partner with major suppliers to promote environmental protection and jointly create a path of green development.

As the world's leading provider of information and communications technology solutions, Huawei has been practicing a green strategic concept, which is in line with that of Futong. It strives to reduce its carbon footprint and negative environmental impact by way of continuous innovations and improves the efficiency of resource use and operational efficiency. Huawei develops energy-efficient products through continuous innovations and investment in environmental protection and is committed to help reduce paper consumption and carbon emissions in all industries through its information and communication technologies.

Through its products, solution and services, IBM, one of our suppliers, has long been committed to environmental protection and energy conservation. The company's hardware products emphasize environmental protection, energy saving, space saving and low noise. Their packages use environmentally friendly and recyclable materials as far as possible. The Group and IBM worked together to promote the "Green Horizon" program in 2015 and the upgraded Green Horizon" program in 2016, which strives to uncover the causes of compound atmospheric pollution and its formation patterns through multiple methods utilizing its over 30 years of experience in international weather data analysis and forecasting.

Oracle, as a world renowned enterprise, has been committed to environmental protection, energy saving and emission reduction and has shown respect for labour rights and interests. As a value-added distributor of Oracle, the Group consistently complies with its requirements for conducting environmental protection, emission reduction and safeguarding of employee rights in accordance with its standards.

Sugon, one of our suppliers, has rigorous requirements for its server products, and requires not only excellent performance but also energy conservation and environmental protection. In April 2016, Sugon's servers obtained the Energy Star certification issued by US Environmental Protection Agency and a world's leading quality and safety service institution.

UPHOLDS THE INTEGRITY OF OPERATION, ABIDES BY THE LAWS, REGULATIONS AND BUSINESS ETHICS

The Group always upholds the integrity of operation, abides by the laws, regulations and business ethics, and holds "zero tolerance" attitude towards bribery and corruption behaviour.

We have clearly stated in the "Employee Handbook", concerning the prohibition of bribery and Group's requirements and penalties toward bribery, and regard "giving bribes or accepting bribes" a serious misconduct. We provide training for new employees and require them to sign "code of conduct declaration", committing to their own behaviour and self-restraint. We also integrated the anti-corruption requirements of various manufacturing partners into our own, organize staff to participate in online anti-corruption tests held by the manufacturers, and implement these requirements in our daily operations.

The Group attaches great importance to anti-corruption and anti-bribery work, and has setup internal management and control rules to implement anti-corruption control in compliance with international and national standards, rules and regulations in relation to the prevention of corruption. It reviews the risks in relation to anti-corruption management and control work from the perspective of prevention, and actively improves the communication regarding anti-corruption. It also improves anti-corruption work in areas of system, workflow and monitoring to reduce risks from its source. In 2016, the Group has formulated a series of rules including the Provisions on the Management of Anti-corruption and Anti-bribery, the Procedures for Investigation into Anti-corruption and Anti-bribery, and the Rules for Monitoring and Examination of Compliance and Management of and Control over Risks relating to Anti-corruption and Anti-bribery, and has initially set up an anti-corruption risk database and evaluation system. Furthermore, it held anti-corruption training in Beijing, Shanghai, Shenzhen and Chengdu for channel partners, with over 100 attendees from over 70 enterprises. During the year, the Group's human resource department completed the amendment to the "Employee Handbook", which has strengthened the rules for anti-corruption and anti-bribery and highlighted its importance in the code of conduct for employees.

During the Reporting Period, no employees had been found of bribery, fraud and corruption and no relevant complaints had been received by the Group from any third party.

The Group has complied with relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering.

PEOPLE-ORIENTED, DEDICATED TO ITS STAFF

The Group has consistently adhered to its "people-oriented" philosophy by providing fair and equal employment for our staff, and focusing on nurturing their capability and potentials. This philosophy has helped enhance the core competitiveness of the Group and provides personnel security for the Group.

Aligning with our legal compliance, we strictly comply with national and local laws and regulations and the internal rules and regulations of the Group to conduct our staff employment and dismissal procedures. In view of the job nature of employees, we have implemented standard working hours to reasonably arrange overtime work in light of job requirements and staff's requirements, provide overtime compensation to our staff in accordance to legal requirements and arrange compensatory leave for staff. Specific training is carried out for new staff and professionals to nurture expertise for the Group.

ADHERE TO EQUAL EMPLOYMENT, PROMOTE DIVERSIFICATION

Due to the characteristics of the industry in which the Group operates and the fact that most employees are from science and engineering faculties and colleges, the male and female ratio of our employees has been significantly affected. Despite of these inherent recruitment challenges, we continue to firmly abide to the relevant local laws and regulations by adhering to the principles of equal employment and ensuring fair employment for all genders. As at the end of 2016, the percentage of female employees of the Group was approximately 31%.

Moreover, as a company with business presence across China, Futong has been actively employing local residents for its local branches and offices, in order to promote local employment and contribute to local economic growth. On top of that, we are actively increasing the recruitment of graduates and paying more attention to their training to ensure equal employment opportunities.

ENSURE LEGAL RIGHTS AND INTERESTS OF EMPLOYEES AND IMPROVE COHESION

The Group strictly abides by international conventions on human rights and labour and local labour laws, regulations and policies. We strictly refuse employing children or minors and do not use any form of forced labour. During the employment period, employees are not required to submit identification certificates nor forced to pay deposits.

The Group constantly improves its internal management system and process relating to recruitment and dismissal of employees. We do not encourage employees to work overtime, but advocate timely and efficient work. For inevitable and necessary overtime work, we strictly control the hours of overtime in accordance with the requirements of laws and regulations and pay overtime expenses or arrange reasonable leave. In addition to statutory national holidays, we also provide employees with additional leave benefits. In 2016, we established a new leave benefit, the Charity Leave, in order to encourage employees to participate in charitable activities, help others and contribute to the community. The Group has been working hard to promote harmonious and stable labour relations.

OPTIMIZE SALARY SYSTEM TO MOTIVATE EMPLOYEES

The Group has a comprehensive remuneration and benefits system to provide staff with competitive remuneration packages. Through internal promotion, rewards and salary adjustment mechanism, the performance of staff is closely linked with remuneration and personal development, ensuring that outstanding staff can receive more incentives and recognition.

The Group makes social insurance and housing fund contributions or mandatory provident fund contributions for all employees in accordance with laws and regulations. It also provides employees with diversified benefits including meal allowance, transportation allowance, telephone bill allowance, holiday allowance, medical insurance, personal accident insurance, paid annual leave, paid sick leave, and health examinations.

CARE FOR EMPLOYEES, ENHANCE STAFF HAPPINESS

Caring for employees and enhancing their happiness has always been one of our top priorities. The Group strives to create a harmonious, comfortable and healthy office environment and establish a good working order and a relaxed working atmosphere by improving the Group's internal rules. We also organize a variety of cultural and sports activities such as Futong Sports Day, outward bound training and Futong annual meetings. The cohesion between our employees is enhanced through their participation, which enables team members to fully trust and cooperate with each other and provides a guarantee for efficient team operation.



Employees of the Group actively participate in annual Futong Sports Day and Futong Annual Meeting with various programs

PROMOTE OCCUPATIONAL HEALTH AND SAFETY AWARENESS, AND PROVIDE MEDICAL SECURITY

We have always been concerned about our employees and strive to provide them with a safe and healthy working environment. During 2016, practical improvements were conducted at the office environment of our Beijing office. The reporting line was re-organized and certain office areas were renovated, which not only helped maintain a safe and comfortable working environment but also ensured a good working order and strict work discipline. Following the introduction of a face recognition access control system in Beijing office in 2015, the Group gradually adopted the system in other office areas in the PRC in 2016. The new system provides stronger protection for the personal and property safety of employees.

Regarding occupational health and safety, the Group strives to reduce occupational safety risks and protect health of employees through various means including making timely social insurance contributions and supplementary business insurance contributions for employees, organizing annual health examinations, providing corresponding holidays, arranging reasonable tasks and improving working environment for female employees during pregnancy and lactation. Over the years of operation, the Group did not experience any serious health and safety accident, nor have any relevant disputes with its employees.

The Group has complied with relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

IMPROVE STAFF TRAINING SYSTEM TO BUILD A PROFESSIONAL TEAM

We hold regular training for new employees. Training courses are developed by a dedicated curriculum development team and are taught by experience lecturers, covering not only detailed explanation of human resource, financial, administrative, business and regulations matters, but also product information and guides such as operational skills, which has provided comprehensive training to help new employees rapidly familiarize with the Group's operations. In 2016, we held a total of 4 training sessions for 78 new employees.

In order to attract and retain capable talents specialized in project management, the Group has developed incentives schemes to encourage them, which helped enhance the Group's professional capability. We also support our employees in participation of various external training designated to improve expertise of engineers by providing them with full reimbursement for their training costs.

In order to increase the diversity of training and enhance the enthusiasm of employees to participate, the Group worked together with a renowned company and launched an online training system in September 2016. This mobile learning platform enables employees to understand various internal rules of the Group and obtain professional knowledge in their spare time and has become a strong and powerful supplement for the Group's offline training.

PARTICIPATION IN CSR ACTIVITIES TO PROMOTE COMMUNITY DEVELOPMENT

Prior to the Mid-Autumn Festival in 2016, the Group's employee representatives showed their compassion and care to SOS Children's Village Beijing and carried out CSR (Corporate Social Responsibility) activities there. CSR activities are part of our corporate culture and the embodiment of our company visions. We advocate and support employees in participating in CSR activities and showing our compassion and care to the underprivileged. Formally established in December 2006, SOS Children's Village Beijing is a social welfare institution for children who have lost their parents. The Group's employee representatives visited small families at SOS Children's Village Beijing, communicated with guardians of the children to understand their living conditions, and donated food and daily necessities for 15 families counts to the manager of the children's village.

The Group's employee representatives' visit to SOS Children's Village Beijing

Moreover, Futong donated HK$100,000 to Mingxi Charity Foundation in November 2016. Mainly serving young individuals, Mingxi Charity Foundation is a charity organization founded to help poor students, promote exchange between students in Hong Kong and mainland China, identify and train outstanding young talents for Hong Kong and China.

In order to strengthen and promote fire safety education, we invited local community officers responsible for advocating fire safety to conduct a fire knowledge lecture for our employees at our headquarters in Beijing in June 2016. To better fulfil our social responsibilities, the Group strives to improve the ability of its employees and the community in fire prevention and control by actively participating in fire safety education.

ACTIVELY PROMOTE ENERGY CONSERVATION, EMISSION REDUCTION, AND ENVIRONMENTAL PROTECTION

In order to contribute to environmental protection, the Group promotes environmental-friendly operation and is committed to energy conservation and emission reduction. We have developed a series of rules and regulations to reduce resource consumption and emission, and encourage employees to implement similar practices in their regular production and operational activities. In addition, upon revising our energy usage, we uncovered areas with large energy consumption and invested capital to achieve higher efficiency in energy conservation. The waste generated during operation of the Group mainly includes domestic wastewater, vehicle fuel emission, and office and domestic garbage.

We have implemented, among others, the following measures to reduce resource consumption and waste emissions:

1. Conduct centralized electronic waste and office equipment recycle by appointing professional waste recycling companies for disposal and process.

2. Classify wastage and set up separate places for recyclable waste and non-recyclable waste;

3. Purchase environmentally friendly office equipment and supplies that are made of recycled materials;

4. Promote and advocate the implementation of "paperless office, and low-carbon commute" for employees, and encourage employees to utilize public transit over driving for one day each week;

5. Refrigerators and microwave ovens at tea rooms are cleaned and maintained by professional cleaning staff each week with refrigerators set at optimal energy conservation levels;

6. In order to reduce greenhouse gas emissions, power saving notices are set up near the air conditioning switches at the Beijing office. During summer, the temperatures of air conditioners are set between 26 and 28 degrees Celsius in strict compliance with regulations of the Beijing municipal government in regards to air conditioner usage management at office buildings. When air conditioners are in operation, we require all doors and windows to be closed in order to reduce energy waste and carbon dioxide emissions;

7. Strictly require employees to shut down computers and other electronic equipment to lower electricity consumption after work. For the equipment that can be shut down at night, staff at the administration department are designated to examine whether the relevant items are shut down after work;

8. During daytime hours with good lighting, light dimming policy is adopted by the administration department whenever possible;

9. Employees are prohibited from using high-power electrical equipment, and those in violation will receive penalty;

10. Implementation of a paperless office system. Double-sided printing is advocated for all printed documents. Waste paper are recycled as facsimile pages, notes and memos to reduce paper consumption and wastage. Paper procurement volume of the Group decreased in 2016 in light of successful implementation of this measure;

11. Regulate vehicles usage by strictly prohibiting private use of vehicles of the Group. Approvals from higher management shall be obtained for use of vehicles of the Group for business purposes and that the vehicles and driving routes must be arranged in a reasonable manner to reduce fuel consumption;

12. Green plants are put at suitable office areas to absorb greenhouse emissions and reduce noise; and

13. Advocate green concept of environmental protection. The Proposal for Energy Saving and Emission Reduction was published on "Futong-ers", an internal publication of the Group, in June 2016.

In 2016, certain areas of the Beijing headquarters were renovated. In order to reduce energy consumption and greenhouse gas emissions, we replaced existing incandescent lamps with LED lamps. There were approximately 96 sets of incandescent lamps, with a total power of 11,520 watts. Following their replacement with LED lamps, the number of lamps remained unchanged but their total power consumption decreased by 50%, which has significantly reduced energy consumption and greenhouse gas emissions.

The table below sets forth the indicators of the Group for energy consumption, greenhouse gases, waste and sewage emissions in 2016.

Emission Indicator	**Unit**	**2016**
Direct emissions of greenhouse gas	tonne of CO2e	18.82
Of which: Direct emissions of carbon dioxide (CO2)	tonne	18.75
Direct emissions of methane (CH4)	tonne	0.02
Direct emissions of nitrous oxide (N2O)	tonne	0.05
Indirect emissions of greenhouse gas	tonne of CO2e	467.43
Total emissions of greenhouse gas	tonne of CO2e	486.25
Total waste discharge	tonne	71.35
Total discharge of domestic sewage	cubic metre	2,612.99

Energy Consumption Indicator	**Unit**	**2016**
Electricity consumption	kWH	629,166.96
Gasoline consumption	L	8,620.98
Comprehensive energy consumption	tonne of standard coal	86.58
Paper consumption	kg	3,169.90
Municipal water consumption	tonne	3,083.28

The Group has complied with relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Deloitte.

德勤

To the Shareholders of
FUTONG TECHNOLOGY DEVELOPMENT HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Futong Technology Development Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 56 to 116, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Key audit matter	**How our audit addressed the key audit matter**
Revenue recognition on sales of goods	
We have identified the revenue recognition on sales of goods as a key audit matter as during the year, a majority of recorded revenue transactions are related to the Group's revenue arrangements for sales of IT infrastructure products. Sales of goods transactions are generally recorded in the system kept and maintained by the Group when goods are delivered and titles have passed, while certain sales arrangements are evidenced by customers' acceptance. The amount and volume of sales of goods transactions are significant to the consolidated financial statements.	Our audit procedures in relation to revenue recognition on sales of goods included: • Evaluating key controls in connection with the recognition of revenue derived from sales of goods; • Evaluating the Group's IT systems and related computer controls that are relevant to the recording of sales of goods transactions; • Analysing the sales of goods data for the year kept in the systems and maintained by the Group for major trends throughout the year. Identifying significant fluctuations and comparing and contrasting them with explanations elaborated by management to identify significant unusual deviations and, where necessary, investigating related deviations therefore noted; and • Testing the sales of goods transactions recorded, on a sample basis, by referring to evidence obtained including third party documentation of deliveries and, where appropriate, customers' acceptance and by checking the fulfillment of necessary contractual rights and obligations in the sales arrangements during the year as well as around the year end.

Key audit matter	How our audit addressed the key audit matter
Write-down of inventories	
We have identified the adequacy of the write-down of inventories as a key audit matter because inventories represent a significant asset on the Group's statement of financial position and are carried at the lower of cost and net realisable value. Management is required to make best estimates of the net realisable value of inventories, in particular for obsolete inventory items, and significant judgement is required. In identifying inventory items, the net realisable value of which may fall below their costs, management refers to changes in product specifications noted in the recent order requests from customers as well as the aging information of the inventories.	Our audit procedures in relation to the write-down of inventories included: • Evaluating Group's key controls relating to management's determination of the obsolete inventory items, inventory aging information and level of inventory write-downs; • Evaluating against evidence available management's judgement over occurrence of any event during and subsequent to the year end indicating a potential inventory obsolescence that may lead to a write-down of inventories, its impact on the management's assessment of the write-down thereof, a comparison of changes in product specifications in the recent order requests from customers to those of inventories kept by the Group and other available indicators; • Testing and checking, on a sample basis, the information of aged inventory kept and recorded by management which forms one of the bases of management's assessment of the write-down for obsolete inventories; • Comparing management's estimates made in prior periods against evidence available in the current period relating to the obsolescence and marketability of inventories; and • Comparing the value of recent selling prices of inventories subsequent to the reporting year to management's assessment of value of inventories after write downs and checking, on a sample basis, these selling prices of inventories subsequent to the reporting year against evidence available including sales invoices issued.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
We have identified the impairment of trade receivables as a key audit matter because such impairment require management's best estimate over the expected losses arising from the collection of the debts incurred as at the balance sheet date and at the same time trade receivables represent a significant asset on the Group's balance sheet with a substantial increase in the current year along with the growth of the sales of IT infrastructure products. The recoverability of trade receivables is crucial in the Group's cash management. Significant management judgement is required in determining an appropriate level of impairment to be made with reference to the assessment of the expected collection of each of the trade debts individually that is based on various factors including credit history of customers.	Our audit procedures in relation to impairment of trade receivables included: • Evaluating the Group's key controls over management's assessment of recoverability of trade receivables with reference to customer's credit history; • Understanding the key factors considered by management in assessing the recoverability of trade receivables, and challenging the reasonableness of these factors with reference to the customers' past settlement history and trends and status of settlements made subsequent to the year end. Examining also the reasonableness of management's judgement on the impact of overdue receivables with reference to the rationale behind non-payments; • Comparing management's estimates made in prior periods against evidence available in the current period relating to actual loss realised on uncollectible trade debts, in order to assess the reasonableness of impairment on expected loss of uncollectible trade debts, considered and provided by management as of the balance sheet date.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Tung Wai Lung Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**3,441,198**	2,558,663
Cost of sales and services		**(3,194,407)**	(2,325,246)
Gross profit		**246,791**	233,417
Other income	7	**9,375**	12,105
Other gains and losses	7	**(14,612)**	(11,448)
Selling and distribution expenses		**(134,596)**	(125,856)
Administrative expenses		**(47,108)**	(43,120)
Profit from operations		**59,850**	65,098
Finance costs	8(a)	**(33,086)**	(39,441)
(Loss) gain recognised on disposal of interests in an associate	17	**(647)**	94
Share of loss of associates	17	**(1,234)**	(1,730)
Profit before tax		**24,883**	24,021
Income tax expenses	9(a)	**(8,255)**	(715)
Profit for the year and total comprehensive income for the year	8	**16,628**	23,306
Profit for the year and total comprehensive income for the year attributable to:			
Owners of the Company		**17,667**	23,674
Non-controlling interests		**(1,039)**	(368)
		16,628	23,306
Earnings per share			
– Basic and diluted (RMB)	13	**0.06**	0.08

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	At 31 December 2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	14	**25,883**	27,762
Other intangible assets	15	**3,817**	2,509
Interest in associates	17	**7,326**	11,724
Deferred tax assets	18(a)	**28,701**	36,097
Total non-current assets		**65,727**	78,092
Current assets			
Inventories	19	**433,486**	360,680
Trade and other receivables	20	**1,266,901**	831,230
Tax recoverable		**1,117**	–
Pledged deposits	21	**226,698**	167,472
Bank balances and cash	22	**172,648**	341,823
Total current assets		**2,100,850**	1,701,205
Current liabilities			
Trade and other payables	23	**981,246**	740,820
Borrowings	24	**603,728**	463,331
Tax payable		**–**	3,399
Total current liabilities		**1,584,974**	1,207,550
Net current assets		**515,876**	493,655
NET ASSETS		**581,603**	571,747
CAPITAL AND RESERVES			
Share capital	25(a)	**27,415**	27,415
Reserves		**549,562**	538,667
Attributable to owners of the Company		**576,977**	566,082
Non-controlling interests		**4,626**	5,665
TOTAL EQUITY		**581,603**	571,747

The consolidated financial statements on pages 56 to 116 were approved and authorised for issue by the board of directors on 22 March 2017 and are signed on its behalf by:

Chen Jian
Executive Director

Zhang Yun
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000 (note 25 (b))	Merger reserve RMB'000 (note 25 (b))	Share options reserve RMB'000	Statutory reserves RMB'000 (note 25 (b))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	27,415	81,538	219	1,102	69,413	372,620	552,307	6,033	558,340
Profit for the year and total comprehensive income for the year	–	–	–	–	–	23,674	23,674	(368)	23,306
Transfer of equity-settled share-based payment (note 26)	–	–	–	(579)	–	579	–	–	–
Recognition of equity-settled share-based payment (note 26)	–	–	–	228	–	–	228	–	228
Appropriations	–	–	–	–	289	(289)	–	–	–
Dividends (note 12)	–	–	–	–	–	(10,127)	(10,127)	–	(10,127)
At 31 December 2015	**27,415**	**81,538**	**219**	**751**	**69,702**	**386,457**	**566,082**	**5,665**	**571,747**
Profit for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**17,667**	**17,667**	**(1,039)**	**16,628**
Recognition of equity-settled share-based payment (note 26)	**–**	**–**	**–**	**777**	**–**	**–**	**777**	**–**	**777**
Appropriations	**–**	**–**	**–**	**–**	**969**	**(969)**	**–**	**–**	**–**
Dividends (note 12)	**–**	**–**	**–**	**–**	**–**	**(7,549)**	**(7,549)**	**–**	**(7,549)**
At 31 December 2016	**27,415**	**81,538**	**219**	**1,528**	**70,671**	**395,606**	**576,977**	**4,626**	**581,603**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	**24,883**	24,021
Adjustments for:		
Interest income	**(2,377)**	(6,496)
(Gain) loss on disposal of property, plant and equipment	**(692)**	2
Finance costs	**33,086**	39,441
Depreciation	**5,098**	6,348
Amortisation of other intangible assets	**2,166**	130
Share of losses of associates	**1,234**	1,730
Loss (gain) on disposal of interests in an associate	**647**	(94)
Write back of inventories	**(1,037)**	(7,694)
Impairment loss on trade receivables	**9,017**	5,234
Foreign exchange gains, net	**(7,311)**	(7,029)
Recognition of share-based payment expenses	**777**	228
Operating cash flows before movements in working capital	**65,491**	55,821
(Increase) decrease in trade and other receivables	**(444,688)**	333,086
Increase in inventories	**(71,769)**	(81,967)
Increase in trade and other payables	**241,277**	7,357
Cash (used in)/generated by operations	**(209,689)**	314,297
Income taxes refund	**4,186**	–
Income taxes paid	**(9,561)**	(12,870)
Net cash (used in)/generated by operating activities	**(215,064)**	301,427
INVESTING ACTIVITIES		
Interest received	**2,377**	6,496
Proceeds on disposal of property, plant and equipment	**1,780**	–
Payment for property, plant and equipment	**(4,307)**	(5,062)
Development costs paid	**(3,474)**	(2,639)
Withdrawal of short term investments	**–**	42,550
Withdrawal of pledged bank deposits	**100,591**	177,088
Placement of pledged bank deposits	**(159,817)**	(125,672)
Net cash inflow of disposal of an associate	**2,517**	633
Net cash (used in)/generated by investing activities	**(60,333)**	93,394

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Proceeds from new bank borrowings	**1,013,216**	839,123
Repayment of bank borrowings	**(912,588)**	(1,124,148)
Proceeds from other borrowings	**63,491**	–
Repayment of other borrowings	**(23,722)**	–
Interest paid	**(33,937)**	(43,289)
Dividends paid	**(7,549)**	(10,127)
Net cash generated by/(used in) financing activities	**98,911**	(338,441)
Net (decrease) increase in cash and cash equivalents	**(176,486)**	56,380
Cash and cash equivalents at beginning of the year	**341,823**	278,414
Effect of foreign exchange rate changes	**7,311**	7,029
Cash and cash equivalents at end of the year, represented by bank balances and cash	**172,648**	341,823

1. GENERAL INFORMATION

Futong Technology Development Holdings Limited (the "**Company**") is a public limited company incorporated in Cayman Islands as an exempted company with limited liability. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**").

Its immediate and ultimate parent is China Group Associates Limited (incorporated in the British Virgin Islands (the "**BVI**"). Its ultimate controlling party is Mr. Chen Jian, who is also the chairman and executive director of the Company.

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

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in the provision of enterprise IT infrastructure products and services.

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

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year:

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of interests in joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Annual Improvements to IFRSs	2012-2014 Cycle

The application of the above amendments to 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 on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new, amendments and interpretations to IFRSs that have been issued but are not yet effective.

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

IFRS 9 *Financial Instruments*

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and revised IFRSs in issue but not yet effective *(Continued)*

IFRS 9 *Financial Instruments* *(Continued)*

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IAS 9 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

Based on an analysis of the Groups financial assets and financial liabilities as at 31 December 2016, the directors of the Company have performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

Trade and other receivables, pledged bank balances and cash and bank balances carried at amortised cost as disclosed in note 29: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

Impairment

Financial assets measured at amortised cost (note 29) (see classification and measurement section above) will be subject to the impairment provisions of IFRS 9.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and revised IFRSs in issue but not yet effective *(Continued)*

IFRS 9 *Financial Instruments* *(Continued)*

Impairment (Continued)

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade and other receivables. The directors are currently assessing the extent of this impact. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the trade and other receivables and are currently assessing the potential impact.

It should be noted that the above assessments were made based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

IFRS 15 *Revenue from Contracts with Customers*

IFRS15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

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

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

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and revised IFRSs in issue but not yet effective *(Continued)*

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

The Group recognises revenue from the following major sources:

- Sale of IT products, including servicing fees included in the price of products sold;
- Provision of services in relation to IT products;

The directors of the Company have preliminarily assessed that the services represent a separate performance obligation from the sale of IT products and accordingly revenue will be recognised for each of these performance obligation when control over the corresponding goods and services is transferred or services have been provided to the customer.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under IAS18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values upon application of IFRS15 which will potentially affect the timing and amounts of revenue recognition. It is not practicable to provide a reasonable financial estimate of the effect until the directors complete the detailed review. In addition, the application of IFRS15 in the future may result in more disclosures in the consolidated financial statements.

IFRS 16 *Leases*

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

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and revised IFRSs in issue but not yet effective *(Continued)*

IFRS 16 *Leases* *(Continued)*

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB13.9 million as disclosed in note 27. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS16, 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 IFRS16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of amendments will result in additional disclosures on the Group's financing activities, specifically, reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance ("**CO**").

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

When the Group ceases to have significant influences over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

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

Revenue from the sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed of which in certain sales arrangements are evidenced by customers' acceptance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from a contract to provide services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- servicing fees for maintenance are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and

- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

Service income

Other service income is recognised when services are provided.

Interest income

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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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 expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange difference 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

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

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme which are defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Short-term employee benefits

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and other providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26 to the Group's consolidation financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to retained profits. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

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

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Intangible assets

Internally-generated intangible assets – research and development expenditure

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

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 complet the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any). 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets

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

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of each asset in the unit. The carrying amount of an asset is note reduced below the highest of its fair value less costs of disposal (if measureable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the moving weighted average method. Net realisable value represents the estimated selling price for inventories.

Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

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

Financial instruments

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

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the reporting periods. 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 financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Loans and receivables

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

Impairment of financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

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.

Financial liabilities

The Group's financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial assets and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an 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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business. Management is required to make best estimates of the net realisable value of inventories, in particular for obsolete inventory items and significant judgement is required. In identifying inventory items, the net realisable value of which may fall below their costs, management refers to changes in product specifications noted in the recent order requests from customers as well as the aging information of the inventories. Management reassess these estimations at the end of each reporting period to ensure inventory is stated at the lower of cost and net realisable value.

As at 31 December 2016, the carrying amount of inventories is RMB433,486,000 (31 December 2015: RMB360,680,000).

(ii) Impairment of trade receivables

Impairment of trade receivables represents management’s best estimate over the expected losses arising from the collection of the debts incurred as at the balance sheet date. Significant management judgement is required in determining an appropriate level of impairment to be made with reference to the assessment of the expected collection of each of the trade debts individually that is based on various factors including credit history of customers. Management determines the impairment of trade receivables on a regular basis. If financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassess the impairment of trade receivables at the end of each reporting period.

As at 31 December 2016, the carrying amount of trade receivables is RMB1,147,319,000, net of allowance for doubtful debts of RMB48,595,000 (31 December 2015: carrying amount of RMB736,514,000, net of allowance for doubtful debts of RMB40,067,000).

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

(iii) Deferred tax assets

As at 31 December 2016, deferred tax assets of RMB28,701,000 (31 December 2015: RMB36,097,000) in relation to temporary differences have been recognised in the consolidated statement of financial position. The recognition of deferred tax assets primarily depends on whether sufficient taxable temporary differences or future assessable profits will be available in the future. In cases where the actual future assessable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss in the period such a reversal takes place.

5. REVENUE

Revenue represents revenue arising on sale of enterprise IT products and provision of services for the year. The amount of each significant category of revenue recognised during the year is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of goods	**3,159,985**	2,254,533
Provision of services	**281,213**	304,130
	3,441,198	2,558,663

The amount of each significant category of revenue arising on sale of enterprise IT products recognised during the year is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of Huawei products	**1,292,787**	676,212
Sales of IBM products	**865,902**	928,095
Sales of Oracle products	**427,978**	313,902
Sales of other products	**573,318**	336,324
	3,159,985	2,254,533

6. SEGMENT REPORTING

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by senior executive management of the Company, the chief operating decision maker, in order to allocate resources and to assess performance.

The chief operating decision maker considers that the operation of the Group constitutes a single operating segment as the revenue and profit are derived entirely from the provision of enterprise IT products and services to customers in the PRC. Accordingly, no segment analysis is presented. The majority of property, plant and equipment is located in the PRC. The information reported to senior executive management of the Company for the purpose of resources allocation and assessment of performance are same as the amounts reported under IFRSs.

The Group's customer base is diversified and there are no customers whose transactions have exceeded 10% of the Group's revenue in 2016 and 2015.

7. OTHER INCOME, GAINS AND OTHER LOSSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Other income		
Interest income	**2,377**	6,496
Government grants (note)	**3,397**	4,922
Others	**3,601**	687
	9,375	12,105
Other gains and losses		
Gain (loss) on disposal of property, plant and equipment	**692**	(2)
Impairment loss on trade receivables	**(9,017)**	(5,234)
Foreign exchange losses	**(5,719)**	(6,152)
Others	**(568)**	(60)
	(14,612)	(11,448)

Note: These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

8. PROFIT FOR THE YEAR

Profit for the year is arrived at after charging:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
(a) Finance costs:		
Interest on borrowings wholly repayable within five years	**33,086**	39,441
(b) Staff costs (including directors):		
Salaries and allowances	**107,514**	96,430
Contributions to retirement benefit schemes	**10,964**	10,391
Equity-settled share-based payment	**777**	228
	119,255	107,049

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a 13% to 20% of payroll costs (subject to a cap) to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs (subject to a cap) to the scheme, which contribution is matched by employees.

The total cost charged to profit or loss of RMB10,964,000 (2015: RMB10,391,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2016. As at 31 December 2016 and 2015, the amount due but not paid to the schemes is insignificant.

(c) Other items:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Depreciation	**5,098**	6,348
Amortisation of other intangible assets	**2,166**	130
Research and development costs	**2,108**	450
Auditors' remuneration	**2,199**	2,447
Cost of inventories recognised as an expense, net of write back of inventores	**2,953,941**	2,062,864

9. INCOME TAX EXPENSES

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**3,005**	6,421
	3,005	6,421
Current tax – PRC income tax		
Provision for the year	**4,658**	4,541
Tax refund (note (iv))	**(4,186)**	–
(Reversal) additional provision (note (iv))	**(2,618)**	2,618
	(2,146)	7,159
Deferred tax		
Change in tax rate (note (iv) and note 18(a))	**9,192**	(9,025)
Credit for the year (note 18(a))	**(1,796)**	(3,840)
	8,255	715

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

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

(iii) Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

9. INCOME TAX EXPENSES *(Continued)*

(a) *(Continued)*

(iv) A subsidiary of the Group operating in China has been granted continuously on a three years interval with a qualification of high-tech enterprise which would entitle the subsidiary a preferential income tax rate of 15%. The latest grant of the qualification to the subsidiary covers the year 2014 to 2016 was obtained by the subsidiary in December 2014. However, in both 2015 and 2014, the subsidiary received tax notices from relevant tax authority for suspending such entitlement for the year 2013 and onwards as a result of a dispute regarding the compliance with certain regulations on managing VAT invoices then prevailing in China in 2012. In response to the suspension, additional income tax provisions of the subsidiary for 2013 and 2014 had been provided at 25% with regard to the EIT Law accordingly in 2014 and 2015 respectively. And the income tax for 2015 was provided at 25%. The subsidiary settled the dispute with the tax authority in 2016 that has resulted in the reinstatement of the use of a preferential tax rate of 15% for the years 2013 to 2015. Accordingly, the subsidiary received a tax refund of approximately RMB4.2 million for the years in respect of additional income tax previously paid. At the same time, the additional provision for the year 2014 of approximately RMB2.6 million not yet paid was reversed by the subsidiary. Subsequent to the year end on 6 March 2017, the subsidiary has obtained a reply from the tax authority for the continuous use of the preferential tax rate of 15% in 2016 according to the above-mentioned entitlement under the qualification of high-tech enterprise. Accordingly, in the opinion of the Directors of the Company, the subsidiary is subjected to a preferential income tax rate of 15% for year 2016 and would be granted with the qualification of high-tech enterprise and enjoy the preferential tax rate of 15% for year 2017 and onwards after the provision of certain filings to the relevant authorities by the subsidiary. As a result, the Group has revised the estimate of future applicable income tax rate from 25% to 15% and an amount of RMB9,192,000 of deferred tax charge resulting from such change of tax rate is recognized in the profit and loss of the current year.

9. INCOME TAX EXPENSES *(Continued)*

(b) Reconciliation between income tax expenses and profit before tax is as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	**24,883**	24,021
Tax calculated at applicable tax rate of 25%	**6,221**	6,005
Effect of different tax rates	**(5,222)**	(3,682)
Tax effect of share of loss of associates	**309**	433
Utilisation of deductible temporary differences previously not recognised	**(780)**	(962)
Tax effect of tax loss not recognised	**4,079**	3,120
Tax effect of expenses not deductible for tax purpose	**1,260**	2,208
Tax effect on deferred tax balances due to the change in income tax rate from 25% to 15%	**9,192**	(9,025)
(Reversal) additional provision	**(6,804)**	2,618
Income tax expenses	**8,255**	715

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The emoluments paid or payable to each of the six (2015: five) directors and the chief executive were as follows:

	Directors' fees RMB'000	Salaries and allowances RMB'000	Share-based payment RMB'000	Contribution to retirement benefits schemes RMB'000	Total RMB'000
Year ended 31 December 2016					
Executive directors					
Chen Jian	–	1,911	–	114	2,025
Zhang Yun (note(i))	–	2,344	–	152	2,496
Independent non-executive directors					
Lee Kwan Hung	208	–	–	–	208
Yuan Bo	229	–	–	–	229
Ho Pak Tai Patrick (note(ii))	208	–	–	–	208
Chow Siu Lui (note(iii))	17	–	–	–	17
	662	4,255	–	266	5,183

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

	Directors' fees RMB'000	Salaries and allowances RMB'000	Share-based payment RMB'000	Contribution to retirement benefits schemes RMB'000	Total RMB'000
Year ended 31 December 2015					
Executive directors					
Chen Jian	–	1,906	–	107	2,013
Zhang Yun	–	2,215	–	142	2,357
Independent non-executive directors					
Lee Kwan Hung	208	–	–	–	208
Yuan Bo	215	–	–	–	215
Ho Pak Tai Patrick	208	–	–	–	208
	631	4,121	–	249	5,001

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

Notes:

(i) Ms. Zhang Yun is the Chief Executive of the Company.

(ii) Mr. Ho Pak Tai Patrick was the chairman of the Audit Committee until 30 November 2016 and resigned as independent non-executive director on 31 December 2016. His emoluments disclosed above include those for services rendered by him as the chairman of the Audit Committee until 30 November 2016 and as the member of the Audit Committee for the period from 1 December to 31 December 2016.

(iii) Mr. Chow Siu Lui has been appointed as the chairman of the Audit Committee with effect from 1 December 2016 and his emoluments disclosed above include those for services rendered by him as the chairman of the Audit Committee for the period from 1 December to 31 December 2016.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two are directors and the chief executive for the year ended 31 December 2016 and 2015, whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the remaining three individuals are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries and allowances	**3,311**	2,742
Contribution to retirement benefits schemes	**142**	122
	3,453	2,864

The emoluments of the five individuals with the highest emoluments are within the following band:

	2016 **Number of** **individuals**	2015 Number of individuals
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**2**	2
	5	5

12. DIVIDENDS

	2016 **RMB'000**	2015 RMB'000
Dividends recognised as distribution during the year: 2015 final dividend: HK2.8 cents, equivalent to RMB2.4 cents (2014 final dividend: HK4.0 cents, equivalent to RMB3.2 cents) per share	**7,549**	10,127

Subsequent to the end of the reporting period, a final dividend of HK1.9 cents (approximately equivalent to RMB1.6 cents) per share in respect of the year ended 31 December 2016 (2015: final dividend of HK2.8 cents (approximately equivalent to RMB2.4 cents per share), totaling approximately HK$5,914,000 (approximately RMB5,123,000) (2015: HK$8,715,000 approximately RMB7,549,000) based on the total number of issued ordinary shares as at the date of issuance of these consolidated financial statements, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

13. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000
Earnings for the purpose of basic and diluted earnings per share	**17,667**	23,674
	'000	'000
Number of ordinary shares for the purpose of basic earnings per share	**311,250**	311,250
Effect of dilutive potential ordinary shares: Options	**107**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**311,357**	311,250

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the Share Options D (as defined in note 26) granted on 18 January 2016. The computation of diluted earnings per share does not assume the exercise of the Company's Share Options A, Share Options C and Share Options E (as defined in note 26) because the exercise prices of those share options were higher than the average market price of the Company's shares in 2016.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1 January 2015	24,353	6,626	22,715	5,803	59,497
Additions	–	2,127	2,935	–	5,062
Disposals	–	–	(36)	–	(36)
At 31 December 2015	24,353	8,753	25,614	5,803	64,523
Additions	–	2,270	2,037	–	4,307
Disposals	–	–	(1,780)	–	(1,780)
At 31 December 2016	24,353	11,023	25,871	5,803	67,050
Accumulated depreciation					
At 1 January 2015	4,699	4,458	16,693	4,597	30,447
Charge for the year	795	923	3,958	672	6,348
Elimination on disposals	–	–	(34)	–	(34)
At 31 December 2015	5,494	5,381	20,617	5,269	36,761
Charge for the year	909	837	2,928	424	5,098
Elimination on disposals	–	–	(692)	–	(692)
At 31 December 2016	6,403	6,218	22,853	5,693	41,167
Net book values					
At 31 December 2016	17,950	4,805	3,018	110	25,883
At 31 December 2015	18,859	3,372	4,997	534	27,762

(a) The above items of property, plant and equipment, are depreciated on a straight-line basis at the following rates per annum after considering any residual value:

Leasehold land and buildings	– 2%
Leasehold improvements	– 33% - 50%
Furniture, fittings and equipment	– 18% - 33%
Motor vehicles	– 25%

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Leasehold land and buildings which are held for own use are situated in the PRC under medium-term lease.

(c) At 31 December 2016, leasehold land and buildings with net book value of RMB17,950,000 (31 December 2015: RMB18,859,000) have been pledged as security for the Group's bills payables (see note 23(b)).

15. OTHER INTANGIBLE ASSETS

During the current year, the Group spent RMB5,582,000 to research and develop cloud computing and system monitoring projects of which a total of RMB3,474,000 internally generated development costs have been recognised as intangible assets by the Group. During the year, the Group has obtained software copyright registration certificates issued by National Copyright Administration of the People's Republic of China ("中華人民共和國國家版權局") for completed projects with capitalized development costs of RMB3,350,000. The development costs for these completed projects are amortised on a straight-line basis at 20% per annum. The amortisation charges for the current year is RMB2,166,000.

16. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries are set out below.

Name of company	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Proportion ownership interest/ voting power held by the Company 2016 Directly %	2016 Indirectly %	2015 Directly %	2015 Indirectly %	Principal activities
Futong Technology Co., Ltd. ("**Futong BVI**")	The BVI	US$50,000	**100**	**-**	100	–	Investment holding
Etong Technology Holdings Limited	The BVI	US$1	**-**	**100**	–	100	Investment holding
Futong Technology IT Services Co., Ltd.	The BVI	US$1	**-**	**100**	–	100	Investment holding
Futong Technology (HK) Company Limited	Hong Kong	HK$1,000,000	**-**	**100**	–	100	Provision of enterprise IT products
Futong Technology Development Holdings (HK) Limited (notes (iii) and (iv))	Hong Kong	HK$57,779,100	**-**	**81**	–	81	Provision of enterprise IT products
Futong Cloud Technology (HK) Company Limited (notes (vi))	Hong Kong	HK$1,000,000	**-**	**100**	–	100	Investment holding

16. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Proportion ownership interest/ voting power held by the Company				Principal activities
			2016		2015		
			Directly %	Indirectly %	Directly %	Indirectly %	
Futong Transcend Technology (HK) Company Limited (notes (vi))	Hong Kong	HK$1,000,000	–	100	–	100	Investment holding
北京富通東方科技有限公司 Futong Dongfang (notes (i) and (ii))	The PRC	RMB100,000,000	–	100	–	100	Provision of enterprise IT products and services
富通時代科技有限公司 Futong Times Technology Co., Ltd. (notes (i) and (ii))	The PRC	RMB100,000,000	–	100	–	100	Provision of enterprise IT products and services
北京易通東方科技有限公司 Beijing Etong Dongfang Technology Co., Ltd., (notes (i) and (ii))	The PRC	RMB50,000,000	–	81	–	81	Provision of enterprise IT products
富通雲騰科技有限公司 Futong Cloud Technology Co., Ltd. (notes (i), (ii) and (v))	The PRC	RMB50,000,000	–	100	–	100	Provision of enterprise IT products and IT services
富通騰達科技有限公司 Futong Transcend Technology Co., Ltd. (notes (i), (ii) and (v))	The PRC	RMB50,000,000	–	100	–	100	Provision of enterprise IT products and IT services

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

Notes:

(i) These entities are wholly foreign-owned enterprises established in the PRC.

(ii) The English translation of the company name is for reference only. The official names of these entities are in Chinese.

(iii) In the opinion of the directors of the Company, there is no subsidiary that has non-controlling interest that is material to the Group. Hence, no further financial information of non-wholly owned subsidiary is presented.

(iv) In accordance with the transitional provisions set out in section 37 of schedule 11 to Hong Kong Companies Ordinance (Cap.622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the company's share capital.

(v) The entity was established in 2014. The registered capital of the entity has not been fully paid by the date of issuance of these consolidated financial statements.

(vi) The entity was established in 2014. The registered capital of the entity has been fully paid in July 2016.

17. INTEREST IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investment in associates, unlisted	**7,337**	26,025
Share of accumulated losses	**(11)**	(14,047)
Loss on deemed disposal	**–**	(254)
	7,326	11,724

As at 31 December 2016 and 2015, the Group had interests in the following associates:

Name of company	Place of establishment	Registered capital/share capital 2016	Registered capital/share capital 2015	Proportion ownership interest/ voting power held by the Company 2016 Directly %	2016 Indirectly %	2015 Directly %	2015 Indirectly %	Principal activities
數普金通數據技術有限公司 Centrin-FC Data Device Technology Co. Ltd. ("**Centrin-FC**") (notes (i), (ii), and (iii))	The PRC	**RMB58,400,000**	RMB58,400,000	**-**	**-**	–	32	Provision of enterprise IT products and services
富通金信有限公司 Futong Technology Advanced Business Service Limited ("**Futong Technology**")	Hong Kong	**HK$18,486,555**	HK$18,486,555	**-**	**49**	–	49	Investment holdings
北京富通金信計算机系統服務有限公司 Beijing Futong Jinxin Computer System Service Co. Ltd. ("**Beijing Futong Jinxin**") (note (i) and (ii))	The PRC	**RMB15,000,000**	RMB15,000,000	**-**	**49**	–	49	Provision of enterprise IT products and services

17. INTEREST IN ASSOCIATES *(Continued)*

Notes:

(i) This entity is a limited liability company established in the PRC.

(ii) The English translation of the company name is for reference only. The official name of this entity is in Chinese.

(iii) The Group held a 32% interest in Centric-FC. and accounted for the investment as an associate. In October, 2016, the Group disposed all of the interests in Centric-FC to another shareholder of Centric-FC for cash proceeds of approximately RMB2,517,000. This transaction has resulted in the Group recognising a impairment loss of RMB647,000 in profit or loss.

	RMB'000
Proceeds of disposal	2,517
Less: cost of investment in associate	18,688
accumulated share of profits in associate	(15,524)
Disposal loss	(647)

Aggregate information of associates that are not individually material:

	2016 **RMB'000**	2015 RMB'000
The Group's share of gain (loss) and other comprehensive income (expense)	**804**	(1,730)
Share of loss in disposed associate	**(2,038)**	–
	(1,234)	(1,730)
Aggregate carrying amount of the Group's interests in these associates	**7,326**	11,724

18. DEFERRED TAXATION

(a) Deferred tax assets recognised

Deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Write-down of inventories RMB'000	Impairment loss on trade receivables RMB'000	Accrued expenses and others RMB'000	Total RMB'000
At 1 January 2015	5,934	6,943	10,355	23,232
(Charged)/credited to profit or loss (note 9(a))	(1,246)	1,248	3,838	3,840
Effect of change in tax rate (note 9(a))	2,991	1,615	4,419	9,025
At 31 December 2015	7,679	9,806	18,612	36,097
Credited/(charged) to profit or loss (note 9(a))	**177**	**2,354**	**(735)**	**1,796**
Effect of change in tax rate (note 9(a))	**(2,453)**	**(940)**	**(5,799)**	**(9,192)**
At 31 December 2016	**5,403**	**11,220**	**12,078**	**28,701**

(b) Deferred tax assets not recognised

As at 31 December 2016, the Group has not recognised deferred tax assets in respect of unutilised tax losses of approximately RMB37,809,000 (31 December 2015: RMB24,010,000) due to the unpredictability of future profit streams. The tax losses will be expired as follows:

	2016 RMB'000	2015 RMB'000
2017	**4,991**	4,991
2018	**1,779**	1,779
2019	**2,243**	2,243
2020	**12,480**	12,480
2021	**16,316**	–
	37,809	21,493

At the reporting period end, the Group has accumulated deductible temporary differences of RMB4,941,000 (2015: RMB8,060,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

18. DEFERRED TAXATION *(Continued)*

(c) Deferred tax liabilities not recognised

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB313,426,000 (31 December 2015: RMB298,271,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

19. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2016 **RMB'000**	2015 RMB'000
Trading stocks	**433,486**	360,680

20. TRADE AND OTHER RECEIVABLES

	2016 **RMB'000**	2015 RMB'000
Trade receivables	**1,195,914**	776,581
Less: allowance for doubtful debts	**(48,595)**	(40,067)
	1,147,319	736,514
Bills receivables	**79,176**	44,463
Prepayments (note (i))	**24,660**	35,416
Deposits (note (ii))	**11,122**	13,310
Other receivables	**4,624**	1,527
	1,266,901	831,230

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(i) Prepayments consist of advance payments made to suppliers for purchases of inventory and other prepaid expenses.

(ii) Deposits mainly consist of bidding deposits and utilities deposits. Bidding deposits are deposits placed upon bidding of sales contracts and are refundable to the Group regardless of the outcome of the bids.

(iii) Aging analysis

The Group allows an average credit period of 30-90 days to its trade customers. For certain major customers such as the state owned enterprises, the credit term will be negotiated by the management with the major customers on an individual basis. Further details of the Group's credit policy are set out in note 29(a). The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts respectively presented based on the revenue recognition date at the end of the reporting period.

	2016 **RMB'000**	2015 RMB'000
0-30 days	**515,372**	313,428
30-60 days	**233,661**	138,075
60-90 days	**122,868**	57,612
More than 90 days	**354,594**	271,862
	1,226,495	780,977

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of RMB272,641,000 (31 December 2015: RMB195,135,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade and bills receivables which are past due but not impaired.

	2016 **RMB'000**	2015 RMB'000
Less than 1 month past due	**124,060**	33,483
1 to 3 months past due	**43,656**	46,419
More than 3 months	**104,925**	115,233
Total	**272,641**	195,135

20. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Impairment of trade receivables

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

The movement in the allowance for doubtful debts:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**40,067**	34,945
Impairment losses recognised on receivable	**9,017**	5,234
Amounts written off during the year as uncollectible	**(489)**	(112)
At 31 December	**48,595**	40,067

21. PLEDGED DEPOSITS

Pledged deposits represent deposits placed to banks as security for the banking facilities granted to the Group (see notes 24(c)), bills issued by the banks (see note 23(b)) and performance guarantee letters issued by the banks.

Pledged deposits carry interest at fixed rates which range from 0.01% to 1.5% (31 December 2015: 0.01% to 1.5%) per annum.

22. BANK BALANCES AND CASH

Bank balances and cash comprise of bank balances and cash.

At 31 December 2016, the balance included bank balances and cash in the PRC of approximate RMB167,855,000 (31 December 2015: RMB303,311,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Bank balances carry interest at variable rates which range from 0.01% to 0.35% (31 December 2015: 0.01% to 0.35%) per annum.

23. TRADE AND OTHER PAYABLES

	2016 **RMB'000**	2015 RMB'000
Trade payables	**512,329**	292,741
Bills payable	**182,876**	234,463
Receipts in advance	**205,792**	142,506
Other payables and accruals	**80,249**	71,110
	981,246	740,820

All of the above balances are expected to be settled within one year.

(a) The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2016 **RMB'000**	2015 RMB'000
0 - 60 days	**353,919**	165,922
60 - 90 days	**3,428**	6,736
Over 90 days	**154,982**	120,083
	512,329	292,741

(b) Bills payable are normally issued with a maturity of not more than 120 days. The bills payable were secured by leasehold land and buildings with carrying amount of RMB17,950,000 (2015: RMB18,859,000) and pledged deposit of RMB94,218,000 (2015: RMB90,001,000) as at 31 December 2016. The available unutilised facility for issuance of bills at 31 December 2016 was approximately RMB295,055,000 (2015: RMB121,686,000).

(c) The average credit period on purchases of goods was 30-90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the acceptable timeframe.

24. BORROWINGS

(a) At 31 December 2016, the borrowings were repayable as follows:

	2016 RMB'000	2015 RMB'000
On demand or within 1 year	**603,728**	463,331

(b) The borrowings were shown as follows:

	2016 RMB'000	2015 RMB'000
Unsecured bank borrowings	**92,259**	173,331
Secured bank borrowings	**471,700**	290,000
Other borrowings	**39,769**	–
	603,728	463,331
Fixed-rate borrowings	**67,028**	33,307
Variable-rate borrowings	**536,700**	430,024
	603,728	463,331

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2016	2015
Fixed-rate borrowings	**2.23%-9.6%**	2.39% to 4.35%
Variable-rate borrowings	**4.50%-6.00%**	5.0% to 6.5%

No interests were capitalized for the year ended 31 December 2016 and 2015.

24. BORROWINGS *(Continued)*

(c) The amounts of banking facilities and the utilisation at 31 December 2016 are set out as follows:

	2016 RMB'000	2015 RMB'000
Banking facilities		
– Unsecured	**149,176**	203,307
– Secured	**562,886**	401,348
	712,062	604,655
Amounts utilised	**563,959**	463,331

The secured banking facilities were secured by the following:

	2016 RMB'000	2015 RMB'000
Pledged deposits	**122,763**	68,500
	122,763	68,500

At 31 December 2016, the Group's bank borrowings of RMB159,900,000 (31 December 2015: RMB105,000,000) (including RMB130,000,000 (31 December 2015: RMB75,000,000) with a clause which entitles the bank an unconditional right to demand immediate repayment) are subject to the fulfilment of certain financial covenants, as are commonly found in lending arrangements with financial institutions, relating to certain ratio on the individual company's statement of financial position. If the financial covenants are breached, the drawn down facilities would become payable on demand.

The Group regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 29(b).

25. CAPITAL AND RESERVES

(a) Share capital

Authorised and issued share capital

	2016		2015	
	Number of shares ’000	**Amount HK$’000**	Number of shares ’000	Amount HK$’000
Authorised:				
Ordinary shares of HK$0.1 each				
At 1 January and 31 December	**2,000,000**	**200,000**	2,000,000	200,000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**311,250**	**31,125**	311,250	31,125

	RMB’000
Presented as	27,415

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

25. CAPITAL AND RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(ii) Merger reserve

Pursuant to the Reorganisation, the Company issued 999,999 ordinary shares of HK$0.1 each to the then shareholders of Futong BVI in consideration of acquiring their equity interests held in Futong BVI. The difference between the then shareholders' total capital contributions to Futong BVI over the nominal value of the shares issued by the Company in exchange thereof was transferred to the merger reserve in the consolidated financial statements as at the date of Reorganisation.

(iii) PRC statutory reserves

Statutory surplus funds comprise statutory reserve fund and enterprise expansion fund. In accordance with relevant rules and regulation on enterprise established in the PRC, the Company's PRC subsidiaries are required to transfer a portion of their profit after income tax to the statutory surplus fund, until the accumulated balance of the fund reaches 50% of their respective paid-in capital. The statutory surplus fund may be distributed to shareholders in the form of bonus issue. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC.

(c) Capital 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 Group defines ''capital'' as including all components of equity.

Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group.

26. SHARE-BASED PAYMENT TRANSACTION

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a resolution passed on 11 November 2009 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the board of directors shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total shares of the Company (or its subsidiary) then in issue.

On 15 June 2011, the Company announces that a total of 1,900,000 share options (the "**2011 Share Options**") to subscribe for shares of HK$0.10 each in the capital of the Company (the "**Shares**") were granted by the Company to the independent non-executive directors and eligible employees of the Company (collectively, the "**2011 Grantees**"), subject to acceptance of the 2011 Grantees, under the Share Option Scheme. A summary of the grant is set out below:

Exercise price of 2011 Share Options	HK$1.81 per Share
Closing price of the Shares on the date of grant	HK$1.80
Validity period of the 2011 Share Options	Ten (10) years, commencing on 15 June 2011
Vesting date of 2011 Share Options granted to independent non-executive directors of the Company ("**Share Options A**")	100% of the 2011 Share Options vested on 15 December 2011
Vesting date of 2011 Share Options granted to eligible employees of the Company ("**Share Options B**")	30%, 30% and 40% of the 2011 Share Options vested on each of 15 December 2011, 15 December 2012 and 15 December 2013, respectively

On 24 August 2015, the Company announces that a total of 900,000 share options (the "**2015 Share Options**") to subscribe for Shares were granted by the Company to the independent non-executive directors of the Company (the "**2015 Grantees**"), subject to acceptance of the 2015 Grantees, under the Share Option Scheme. A summary of the grant is set out below:

Exercise price of 2015 Share Options	HK$1.172 per Share
Closing price of the Shares on the date of grant	HK$0.90
Validity period of the 2015 Share Options	Ten (10) years, commencing on 24 August 2015
Vesting date of 2015 Share Options granted to independent non-executive directors of the Company ("**Share Options C**")	100% of the 2015 Share Options vested on 24 August 2015

26. SHARE-BASED PAYMENT TRANSACTION *(Continued)*

On 18 January 2016, the Company announces that a total of 2,200,000 share options to subscribe for Shares were granted by the Company to the eligible employees of the Group (the "**2016 Grantees**"), subject to acceptance of the 2016 Grantees, under the Share Option Scheme. A summary of the grant is set out below:

Exercise price of the 2016 Share Options	HK$1.004 per Share
Closing price of the Shares on the date of grant	HK$0.990
Validity period of the 2016 Share Options	Ten (10) years, commencing on 18 January 2016
Vesting date of the 2016 Share Options granted to eligible employees of the Group ("**Share Options D**")	30%, 30% and 40% of the 2016 Share Options granted will vest on 18 January 2016, 18 January 2017 and 18 January 2018, respectively

On 14 October 2016, the Company announces that a total of 1,200,000 share options to subscribe for Shares were granted by the Company to the eligible employees of the Group (the "**2016 Grantees**"), subject to acceptance of the 2016 Grantees, under the Share Option Scheme. A summary of the grant is set out below:

Exercise price of the 2016 second Share Options	HK$1.25 per Share
Closing price of the Shares on the date of grant	HK$1.25
Validity period of the 2016 second Share Options	Ten (10) years, commencing on 14 October 2016
Vesting date of the 2016 second Share Options granted to eligible employees of the Group ("**Share Options E**")	30%, 30% and 40% of the 2016 second Share Options granted will vest on 14 October 2016, 14 October 2017 and 14 October 2018, respectively

The following table discloses movements of the Share Options A, Share Options C, Share Options D and Share Options E during the year:

Category	**Outstanding as at 1 January 2016**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**Outstanding as at 31 December 2016**
Share Options A	900,000	–	–	–	–	900,000
Share Options C	900,000	–	–	–	–	900,000
Share Options D	–	2,200,000	–	–	–	2,200,000
Share Options E	–	1,200,000	–	–	–	1,200,000
	1,800,000	3,400,000	–	–	–	5,200,000
Exercisable share options	1,800,000					2,820,000
Weighted average exercise price	HK$1.49					HK$1.35

26. SHARE-BASED PAYMENT TRANSACTION *(Continued)*

The following table discloses movements of the Share Options A, Share Options B and Share Options C during the prior year:

Category	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2015
Share Options A	900,000	–	–	–	–	900,000
Share Options B	1,000,000	–	–	(1,000,000)	–	–
Share Options C	–	900,000	–	–	–	900,000
	1,900,000	900,000	–	(1,000,000)	–	1,800,000
Exercisable share options	1,900,000					1,800,000
Weighted average exercise price	HK$1.81					HK$1.49

None of the share options were exercised during the current and prior year.

The fair values of Share Options A, Share Options C, Share Options D and Share Options E determined at the dates of grant were RMB523,000 (equivalent to HK$630,000), RMB231,000 (equivalent to HK$280,000), RMB712,000 (equivalent to HK$847,000) and RMB518,000 (equivalent to HK$598,000) respectively.

These fair values were calculated using Binomial Model. The inputs into the model for Share Options D and Share Options E granted during the current year were as follows:

	Share Option D	**Share Option E**
Weighted average share price	HK$0.99	HK$1.25
Exercise price	HK$1.004	HK$1.25
Expected volatility	47.6%	46.28%
Expected life	10 years	10 years
Risk-free rate	1.52%	1.051%
Expected dividend yield	3.97%	3.15%

The Group recognised the total expense of RMB777,000 for the year ended 31 December 2016 (31 December 2015: RMB228,000) in relation to Share Options D and E granted by the Company.

27. COMMITMENTS

	2016 RMB'000	2015 RMB'000
Minimum lease payments paid under operating leases during the year:		
Premises	**12,049**	12,626

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

	2016 RMB'000	2015 RMB'000
Within 1 year	**8,130**	8,809
After 1 year but within 5 years	**5,755**	3,396
	13,885	12,205

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, all terms are renegotiated at the end of each period. None of the leases includes contingent rentals.

28. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties.

(a) Name and relationship with related parties

During the year, transactions with the following parties are considered as related party transactions:

Name of party	**Relationships**
北京深思軟件股份有限公司 Beijing Deep Thought Software Co., Ltd. ("**Beijing Deep Thought**")*	A company controlled by Mr. Chen Jian, a director of the Company
Futong Technology	Associate of the Company
Centrin-FC**	Associate of the Company
Beijing Futong Jinxin	Associate of the Company

* The English translation of the company name is for reference only. The official names of this entity is in Chinese.

** The Group had disposed all the interests in Centric-FC to another shareholder of Centric-FC for cash proceeds of approximately RMB2,517,000 in 24 October 2016.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant related party transactions

Particulars of significant related party transactions during the year are as follows:

	2016 **RMB'000**	2015 RMB'000
Recurring transactions:		
Sales to		
Beijing Futong Jinxin	**5,635**	5,542
Beijing Deep Thought	**–**	4,823
Centrin-FC	**74**	320
	5,709	10,685
Provision of services to		
Beijing Futong Jinxin	**548**	221
Centrin-FC	**457**	–
Beijing Deep Thought	**–**	604
	1,005	825
Purchase from		
Centrin-FC	**2,901**	9,761
Beijing Futong Jinxin	**183**	4,784
Beijing Deep Thought	**–**	4,917
	3,084	19,462

28. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due from/(to) related parties

At the end of the reporting period, the Group had the following balances with related parties:

	2016 RMB'000	2015 RMB'000
Trade receivables from (note (i)):		
Beijing Futong Jinxin	**282**	1,553
Trade payables to (note (i)):		
Beijing Futong Jinxin	**3,658**	4,158
Beijing Deep Thought	**408**	408
	4,066	4,566
Other receivables from (note (i)):		
Futong Technology	**268**	212
Other payables to (note (i)):		
Beijing Futong Jinxin	**573**	866
Beijing Deep Thought	**42**	458
	615	1,324
Advance payments to suppliers (note (i)):		
Beijing Futong Jinxin	**1,628**	2,318
Receipts in advance (note (i)):		
Beijing Futong Jinxin	**558**	2,171

Note:

(i) Amount due from/to related parties are unsecured, interest free and expected to be recovered/settled within one year.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's executive directors and chief executive as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries and allowances	**11,841**	11,935
Contribution to retirement benefits schemes	**575**	599
	12,416	12,534

Total remuneration was included in "staff costs" (see note 8(b)).

29. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 **RMB'000**	2015 RMB'000
Financial assets classified as loans and receivables		
Trade and other receivables	**1,242,241**	795,814
Pledged deposits	**226,698**	167,472
Bank balances and cash	**172,648**	341,823
Total	**1,641,587**	1,305,109
Financial liabilities at amortised cost		
Trade and other payables	**712,541**	591,269
Borrowings	**603,728**	463,331
Total	**1,316,269**	1,054,600

The Group's major financial instruments include trade and other receivable, pledged deposits, bank balances and cash, trade and other payables and borrowings. 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.

29. FINANCIAL INSTRUMENTS *(Continued)*

Categories of financial instruments *(Continued)*

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

As at 31 December 2016, 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 Group's credit risk is primarily attributable to trade and other receivables.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

In addition, the Group reviews the recoverable amount of each individual receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is not significantly increased.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

The credit risk on pledged deposits and liquid funds is limited because the counterparties are reputable banks with high credit ratings.

The Group does not have any significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries in the PRC.

(b) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2016, the Group has available unutilised short-term bank loan facilities of approximately RMB148,103,000 (31 December 2015: RMB141,324,000). Details of which are set out in note 24(c).

29. FINANCIAL INSTRUMENTS *(Continued)*

Categories of financial instruments *(Continued)*

(b) Liquidity risk *(Continued)*

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

The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate	On demand or 0-60 days	60-90 days	90 days to 1 year	>1 years	Total undiscounted cash flows	Carrying amount at year end
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016							
Non – derivative financial liabilities							
Trade and other payables		**545,482**	**135,529**	**31,530**	**–**	**712,541**	**712,541**
Borrowings							
– fixed rate	6.9	**63,968**	**3,523**	**–**	**–**	**67,491**	**67,028**
– variable rate	5.2	**65,414**	**121,660**	**359,561**	**–**	**546,635**	**536,700**
		674,864	**260,712**	**391,091**	**–**	**1,326,667**	**1,316,269**
At 31 December 2015							
Non – derivative financial liabilities							
Trade and other payables		463,547	123,134	4,588	–	591,269	591,269
Borrowings							
– fixed rate	3.5	31,307	–	2,000	–	33,307	33,307
– variable rate	5.6	151,618	75,034	210,330	–	436,982	430,024
		646,472	198,168	216,918	–	1,061,558	1,054,600

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

29. FINANCIAL INSTRUMENTS *(Continued)*

Categories of financial instruments *(Continued)*

(c) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and pledged deposits (see notes 21 and 24 for details). It is the Group's policy to keep a majority of its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. In order to achieve this result, fixed-rate borrowings raised by the Group are short-term to minimise the fair value interest rate risk.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (see note 24 for details). Cash flow interest risk in relation to variable-rate bank balances is considered insignificant. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates published by People's Bank of China.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the variable-rate borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 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 for the year ended 31 December 2016 would decrease/increase by approximately RMB2,034,000 (2015: decrease/increase by RMB1,612,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The Group's exposure to cash flow interest rate risk has increased during the current year mainly due to the increase in variable rate borrowings.

29. FINANCIAL INSTRUMENTS *(Continued)*

Categories of financial instruments *(Continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to trade payables, trade receivables, borrowings and bank balances and cash that are denominated in foreign currency.

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

	2016		2015	
	US$	**HK$**	US$	HK$
	RMB'000	**RMB'000**	RMB'000	RMB'000
Assets				
Cash and equivalents	**3,779**	**885**	395	669
Trade receivable	**29,539**	**–**	37,862	–
Other receivable	**–**	**1,311**	–	526
Liabilities				
Trade payable	**(131,721)**	**–**	(115,893)	–
Other payable	**(101)**	**–**	(119)	–
Borrowing	**(39,541)**	**–**	–	–

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 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% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against foreign currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	United States dollar		**Hong Kong dollar**	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**5,763**	3,246	**(93)**	(51)

29. FINANCIAL INSTRUMENTS *(Continued)*

Categories of financial instruments *(Continued)*

(d) Currency risk *(Continued)*

Sensitivity analysis (Continued)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(e) Fair values

The Group has no financial instruments measured at fair value on a recurring basis.

The fair value of financial assets and financial liabilities recorded at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

30. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current assets		
Unlisted investment in a subsidiary	**243,419**	243,419
Total non-current assets	**243,419**	243,419
Current assets		
Amounts due from subsidiaries	**132,904**	121,354
Bank balances and cash	**244**	230
Total current assets	**133,148**	121,584
Current Liabilities		
Trade and other payables	**320**	190
Amount due to a subsidiary	**7,642**	2,432
Total current liabilities	**7,962**	2,622
Net current assets	**125,186**	118,962
NET ASSETS	**368,605**	362,381
CAPITAL AND RESERVES		
Share capital	**27,415**	27,415
Reserves (note)	**341,190**	334,966
TOTAL EQUITY	**368,605**	362,381

Note: the movements of reserve during the year include: (1) profit for the year of the Company was RMB12,961,000 (2015: RMB14,210,000) for the year ended 31 December 2016, (2) the dividend declared and paid was RMB7,514,000 (2015: RMB10,127,000) and share option reserve of RMB777,000 (2015: RMB228,000) in relation to share options for the year ended 31 December 2016 was recognised.

Summary of Financial Information

	Year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Results					
Revenue	**3,441,198**	2,558,663	3,101,298	3,699,123	3,571,089
Profit from operations	**59,850**	65,098	108,099	111,324	97,494
Finance costs	**(33,086)**	(39,441)	(57,405)	(52,964)	(41,557)
(Loss)/gain recognised on disposal of interests in an associate	**(647)**	94	–	–	–
Share of loss of associates	**(1,234)**	(1,730)	(3,717)	(5,130)	(1,991)
Profit before tax	**24,883**	24,021	46,977	53,230	53,946
Income tax expenses	**(8,255)**	(715)	(12,852)	(11,164)	(13,091)
Profit for the year and total comprehensive income for the year	**16,628**	23,306	34,125	42,066	40,855
Profit for the year and total comprehensive Income for the year attributable to:					
– Owners of the Company	**17,667**	23,674	34,363	42,147	42,859
– Non-controlling interests	**(1,039)**	(368)	(238)	(81)	(2,004)
	16,628	23,306	34,125	42,066	40,855

	At 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Assets and liabilities					
Non-current assets	**65,727**	78,092	66,275	77,964	86,008
Net current assets	**515,876**	493,655	492,065	458,508	420,738
NET ASSETS	**581,603**	571,747	558,340	536,472	506,746
Capital and reserves					
Share capital	**27,415**	27,415	27,415	27,415	27,415
Reserves	**549,562**	538,667	524,892	502,786	472,979
Total equity attributable to owners of the Company	**576,977**	566,082	552,307	530,201	500,394
Non-controlling interests	**4,626**	5,665	6,033	6,271	6,352
TOTAL EQUITY	**581,603**	571,747	558,340	536,472	506,746
Earnings per share					
– Basic and diluted (RMB)	**0.06**	0.08	0.11	0.14	0.14

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian *(Chairman)*
Ms. Zhang Yun *(Chief Executive Officer)*

Independent Non-executive Directors

Mr. Lee Kwan Hung
Mr. Chow Siu Lui
Mr. Yuan Bo

COMPANY SECRETARY

Mr. Siu Hin Leung, *HKICPA, FCCA*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Units B1901 on level 19 and B2001 on level 20 of Tower B
Chaowaimen Office Center
No. 26 Chaowai Street
Chaoyang District
Beijing, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2406-2412, 24th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Nanyang Commercial Bank, Ltd.
The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
HSBC Bank (China) Company Limited
Standard Chartered Bank (China) Limited
China Merchants Bank Co., Ltd.
Bank of Beijing
Bank of Hangzhou

LEGAL ADVISORS

As to Hong Kong law:
King & Wood Mallesons

As to Cayman Islands law:
Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre, 183 Queen's Road East,
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