科通芯城
Cogobuy.com

Cogobuy Group 科通芯城集團

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00400

2016 Annual Report

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

KANG Jingwei, Jeffrey
(Chief Executive Office and Chairman of the Board)
WU Lun Cheung Allen *(Chief Financial Officer)*
NI Hong, Hope *(Chief Investment Officer)*

Non-Executive Director

GUO Jiang

Independent Non-Executive Directors

ZHONG Xiaolin, Forrest
YE Xin
YAN Andrew Y

Audit Committee

ZHONG Xiaolin, Forrest *(Chairman)*
YE Xin
YAN Andrew Y

Remuneration Committee

ZHONG Xiaolin, Forrest *(Chairman)*
YE Xin
YAN Andrew Y

Nomination Committee

ZHONG Xiaolin, Forrest *(Chairman)*
YE Xin
YAN Andrew Y

Registered Office

Offices of Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business

9th Floor, Skyworth Building Tower C
High-Tech Industrial Park, Nanshan
Shenzhen 518057, PRC

Principal Place of Business in Hong Kong

Block A, 5th Floor
Goodman Kwai Chung Logistics Centre
585–609 Castle Peak Road
Kwai Chung
New Territories
Hong Kong

Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Company Secretary

WU Lun Cheung Allen

Authorized Representatives

KANG Jingwei, Jeffrey
WU Lun Cheung Allen

Auditors

KPMG
Certified Public Accountants

Legal Advisors

As to Hong Kong and U.S. laws:
Skadden, Arps, Slate, Meagher & Flom

As to PRC law:
Broad & Bright Law Firm

As to Cayman Islands law:
Conyers Dill & Pearman (Cayman) Limited

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited

Listing Information

Hong Kong Stock Exchange, Stock Code: 0400

Company Website

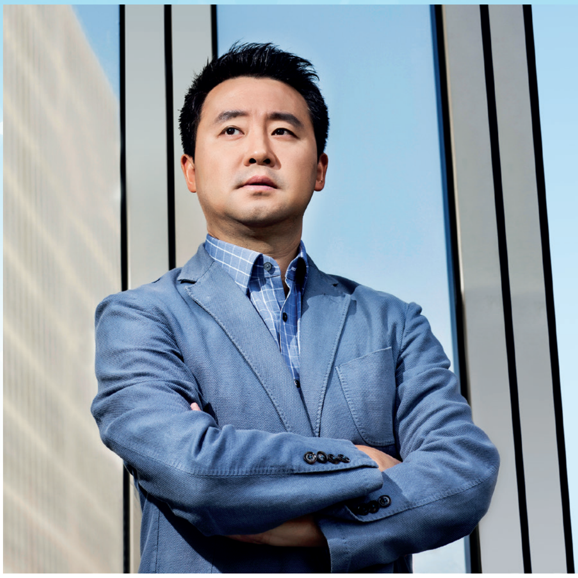
www.cogobuy.com

FINANCIAL HIGHLIGHTS

Financial Highlights

	Year ended December 31, 2016	December 31, 2015	Year-on-year change
	(Renminbi ("RMB") in millions, unless specified)		
Revenue	**12,932.8**	9,453.4	36.8%
Gross profit	**1,062.5**	764.8	38.9%
Profit for the year	**509.6**	366.5	39.0%
Profit attributable to equity Shareholders of the Company	**478.8**	342.9	39.6%
Earnings per Share ("**EPS**") (RMB per Share)			
— basic	**0.347**	0.257	35.0%
— diluted	**0.345**	0.253	36.4%

CHAIRMAN'S STATEMENT



High volatility in the global political and economic environment characterized much of 2016, but Cogobuy managed to weather the year's challenges through its unique business model, and realized revenue through enterprise procurement community using social platforms. As at the end of 2016, online transaction customers increased rapidly and exceeded 20,000, up by 104.4% year-over-year. This helped us achieve strong results despite the slowing economy. Additionally, three of our business segments maintained strong growth momentum.

Since our IPO in 2014, developments in the Cogobuy and INGDAN.com platforms have quickly grown the Company from an e-commerce business that provided IC components to a comprehensive electronics-manufacturing ecosystem. We built a community of enterprise decision makers, and launched targeted marketing campaigns for decision makers at potential customers. Powered by our proprietary marketing data, we were able to effectively and accurately provide products and services to fulfill the needs of this subset of customers. This unique model has increased the Company's marketing accuracy and driven higher transaction volumes through its "social + e-commerce" design.

In 2016, we implemented INGDAN.com's monetization strategy that combined online marketing and offline services. Prior to this, INGDAN.com's online platform had already driven large numbers of customers, higher demand, and access to more data for both Cogobuy and INGDAN.com. The monetization strategy consisted of three parts: monetization through IC component transactions on Cogobuy's platform; transactions of non-IC products related to the supply-chain; and enterprise services transactions. As a result, INGDAN.com contributed RMB5,184.7 million of GMV to Cogobuy, accounting for approximately 24.0% to the whole of 2016.

Looking ahead to 2017, we anticipate a strong growth in optical communications, data centers, auto electronics, and other areas. Furthermore, artificial intelligence ("**AI**") technology — a growing field with wide applications across the electronics industry — will bring us enormous business opportunities. We have already seen an example of this in voice recognition technology and its increasing adaptation in home appliances. The trend has caused many traditional home appliance enterprise clients to begin relying on our platforms, making the consumer electronics market a high growth market to us. We expect the application of AI technology in the electronic industry to be a catalyst for our businesses in the long run.

We are confident in the continuation of our growth momentum in 2017. Constant improvement in our ability to attract new customers will remain a key focus for us, while the rapid growth of the INDAN.com platform will continue to be our main growth driver. Furthermore, we are establishing a new business unit called IngFin Financing Services. With our supply chain financing products as the core, we will increase investments in big data-based enterprise financing. Following the success of INGDAN.com, we expect IngFin Financing Services to become another rapidly growing platform.

In addition to organic growth, the Group is also seeking merger and acquisition targets with growth potential and synergies with our current businesses. Given our position in the multi-trillion RMB IC components and electronic manufacturing services market, we are confident that Cogobuy Group's innovative model will maintain accelerated growth for us in the coming years and enable us to create better value for shareholders.

Lastly, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our management, staff, customers, suppliers, and most valued Shareholders for their selfless contributions and continuous support for the Group.

KANG Jingwei, Jeffrey
Chairman

Hong Kong, March 21, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

Overall Business and Financial Performance of the Group

We are a leading e-commerce company dedicated to serving the electronics manufacturing industry in China. We operate the largest transaction-based e-commerce platform for integrated circuits ("**IC**") and other electronic components in China as measured by Gross Merchandise Value ("**GMV**") since 2013, according to Analysys International, an independent industry consultant. Through our e-commerce platform, including a direct sales platform, an online marketplace and a dedicated team of technical consultants and professional sales representatives, we provide our customers with comprehensive online and offline services across pre-sale, sale and post-sale stages. In 2016, we fulfilled orders and derived a GMV of approximately RMB21.65 billion, of which 59.26% was derived from direct sales value, 27.43% from transaction value in online marketplace and 13.31% from loan value in supply chain financing business. We serve electronics manufacturers including small and medium enterprises ("**SMEs**"), which we believe represent a lucrative and fast-growing segment of the IC and other electronic components market with a significant demand for our services. We offer a wide selection of products at competitive prices through our e-commerce platform, which are sourced from approximately 11,020 suppliers, including some of the top brand-name suppliers in key product categories.

According to research institute ASKCI Consulting Co., Ltd. (中商產業研究院), the size of the IC market in China has reached RMB2.4 trillion in 2015 and is expected to grow to RMB3.9 trillion by 2017. We believe that, leveraging our early-mover advantage, we are well positioned to benefit from the significant growth potential of China's IC and other electronic components procurement market. To better serve and support various aspects of the electronics manufacturing industry in China, we are extending beyond the IC and other electronic components procurement market and are starting to offer additional products and services, such as various tools and applications offered through our cloud computing system. We believe that we can also drive our own long-term growth by fostering the development of an open, collaborative and prosperous e-commerce ecosystem that benefits the business operation of our customers and suppliers as a whole.

We derive our revenue substantially from direct sales of IC and other electronic components. We source high quality IC and other electronic components from leading suppliers around the world and sell them to both SME and blue-chip electronics manufacturers in China through our e-commerce platform and dedicated sales representatives, who work closely with our customers to understand their needs, provide technical consultation and help support their procurement function. In the year ended December 31, 2016, we derived 36.75% and 63.25% for our direct sales revenue from blue-chip customers and SME customers respectively. We also operate an online marketplace that allows third-party merchants to sell their products to our customers through our e-commerce platform. 0.66% of our revenue in 2016 represented commission fees that we charged these third-party merchants. We plan to further enhance our marketplace platform to complement our direct sales platform.

We have built a large community of engineers and technical professionals who are able to contribute to the procurement decisions of electronics manufacturers. The procurement decisions of a Chinese electronics manufacturer are often made by a handful of its key personnel, many of whom are engineers and technical professionals. Accordingly, we target our marketing efforts at those professionals, aiming to form and enhance the sense of community among them. For example, we hold new media marketing events, such as product launches and technology discussion forums, on various social networking platforms, including Weibo and TechWeb. We also launched the Hardeggs WeChat community in September 2013, which has become an interactive and engaging online community promoting idea and knowledge exchanges among electronics designers and engineers in China.

We have developed an e-commerce model to streamline and complement the complex offline procurement system of the electronics manufacturing industry in China. Through a combination of offline and online customer engagement, we have been able to attract and retain electronics manufacturers that work with our sales and customer service teams and through our web and mobile e-commerce platform to efficiently search and define purchase order specifications, as well as execute and manage related procurement processes. Our business model creates a unique value proposition for key participants in China's electronics manufacturing supply chain, including SMEs, blue-chip customers and suppliers.

We also launched the INGDAN.com in September 2013. The Internet of Things ("**IoT**") is leading the information industry into a new era. The development of the IoT industry has now been raised as a national strategy by various countries, and many Information Technology ("**IT**") giants have been accelerating their pace to enter into this promising industry. As reported by researcher International Data Corporation (IDC), global IoT spending will reach US$1.29 trillion by 2020, representing a compound annual growth rate (CAGR) of 15.6% between 2015 and 2020. Meanwhile, the Ministry of Industry and Information Technology of the PRC ("**MIIT**") sets a target for the size of the IoT industry to exceed RMB1.5 trillion by 2020. Positioning as a major innovation business platform in the IoT era, INGDAN.com has now been the largest intelligent hardware innovation business platform in China, and is committed to becoming the most successful one of its kind in the world to provide one-stop service on supply chain to innovation startups worldwide. By the year end of 2016, INGDAN.com has registered more than 20,000 intelligent hardware projects and over 20.0 million followers. Previously, we have defined five markets to be developed in depth to build an ecosystem, including robotics, smart cars, smart homes, new materials, and etc. Cogobuy and INGDAN.com have entered these industries, the deepen development of which will not only bring us more new business opportunities, but also further improve INGDAN.com's monetization strategies and enhance its industry reputation. INGDAN.com currently contributes 24.0% of our total GMV, and we believe that it will generate more GMV to the Group in coming years.

We commenced our supply chain financing business in September 2014 whereby we earn interest income for providing certain financial services to third parties manufacturers, including the provision of working capital financing programs. Our supply chain financing business is a good demonstration of our strength in generating new revenue streams by providing additional services based on our existing platform. During the Reporting Period, GMV contributed by the provision of loans in the supply chain financing business reached RMB2.88 billion.

Future Prospects

Our goal is to become the leading e-commerce platform serving China's unique value proposition industry. We intend to pursue the following growth strategies to achieve our goal:

Expand the SME Customer Base

We plan to further expand our customer base by attracting more SME customers. We intend to target more efforts at SME electronics manufacturers, which we believe represent a lucrative and fast-growing segment of the IC and other electronic components markets with significant demand for our services. We will further exploit social media platforms in China to facilitate idea and knowledge exchanges among a targeted community of engineers and technical professionals and enhance their community experience. We are also in the process of developing new business applications and customized software to provide potential SME customers with access to a wide range of high-quality technical resources. By bolstering our brand name and serving a targeted professional community, we expect to enhance word-of-mouth marketing effects, which we believe will drive new user acquisition and increase conversion of our registered users into transaction users.

Enhance Our Marketplace Platform to Complement the Existing Direct Sales Platform

We officially launched our marketplace platform in July 2013 and we are in the process of expanding its product and service offerings to further complement our direct sales platform. Our marketplace platform takes advantage of our IT and logistics infrastructure to allow third-party merchants to make sales to our registered users. We plan to attract more channel sales vendors, suppliers and manufacturers to our marketplace platform, with a particular emphasis on SME manufacturers of IC and other electronic components. We will also develop tools to establish trust ratings for suppliers and buyers, thus facilitating the process of selecting potential trading partners. We believe that our focus on the business needs of SME merchants will enable us to develop and offer them better services compared to those of other e-commerce companies that focus principally on consumers.

Further Enhance Customer Loyalty and Increase Purchases Per Customer

We plan to continue to enhance customer loyalty and induce more purchases from our existing customers. We intend to leverage our advanced market analytics tools to make our e-commerce platform more efficient and useful to our customers. We will continue to enhance the customized contents on our e-commerce platform and develop new tools for our customers based on their business needs. We plan to continue to develop new complementary services aiming to offer a complete range of products and solutions to our customers. We will also expand our investment in customer service, order fulfilment and delivery capabilities in order to enhance our service reliability and shorten our customer response time to further strengthen the effectiveness of our platform. We plan to increase the repeat purchase rates of newly-acquired customers. We will continue to provide the key procurement personnel of our new customers with powerful online tools, enterprise resource planning and other services free of charge. These services will enable us to maintain constant interactive communications with the key personnel, which in turn allows us to better understand the customers' demands and their product development. Accordingly, we will be able to make customized marketing plans targeted at the new customers and cross-sell other products.

Foster the Development of an Ecosystem Serving the Electronics Manufacturing Value Chain

We plan to foster the development of an open, collaborative and prosperous e-commerce ecosystem that will benefit the business operations of our customers and suppliers, which we believe will also drive our own long-term growth. We intend to broaden our platform's value-added services by extending into related businesses that serve the electronics manufacturing value chain, such as supply chain financing, insurance and cloud computing services. As solutions and services are becoming increasingly imperative for enterprises, we believe that these complementary services are natural extensions of our offerings and will gain traction among our customers. During the process, we also plan to diversify our service offerings by monetizing the massive amount of data collected from our customers and suppliers to diversify our service offerings. We will invest more resources in the research and development of technologies to acquire additional analytical power and deeper understanding of customer behaviours, which will enable us to identify and address the needs of customers and suppliers through data mining and offer them customized solutions at scale. Our data-driven services will include marketing and advertising planning, merchandising, customized products, fulfilment management and third-party data services.

Expand and develop new business platforms

We intend to further increase the monetization rate of INGDAN.com by developing it as a ten billion-sized innovation and entrepreneurship platform. INGDAN.com acquires a myriad of customers, demands and data online, and monetizes transactions by supply chain resources and other corporate services offline. This creates synergy that drives a greater contribution by INGDAN.com to the Group in the future. On the other hand, we have established a new business unit, namely IngFin Financing Services, through which, we will focus on our supply chain financing products to increase our effort in the development of other platform and big-data based corporate financing products.

Pursue Strategic Partnerships and Acquisition Opportunities

In addition to growing our business through internal initiatives, we plan to expand our business through strategic partnerships and acquisitions. We plan to identify partnerships and acquisition targets that are complementary to our business operations, including overseas targets. This can help us expand our user and revenue base, widen our geographic coverage, enhance our product and service offerings, improve our technology infrastructure and strengthen our talent pool. We also plan to leverage our market position and business model to seek attractive cross-selling, cross-marketing and licensing opportunities. In 2014, we became a Microsoft Gold Certified Partner, and started promoting Microsoft Cloud services to our customers.

Management Discussion and Analysis

Overview

For the year ended December 31, 2016, profit of the Group increased significantly and amounted to RMB509.6 million, representing an increase of RMB143.1 million as compared with RMB366.5 million in 2015. Profit attributable to equity shareholders of the Company amounted to RMB478.8 million, representing an increase of RMB135.9 million compared with RMB342.9 million in 2015.

Revenue

For the year ended December 31, 2016, revenue of the Group amounted to RMB12,932.8 million, representing an increase of RMB3,479.4 million or 36.8% as compared with RMB9,453.4 million in 2015. The Group's revenue comprised RMB12,829.1 million of direct sales revenue, RMB84.7 million of marketplace revenue and RMB19.0 million of supply chain financing revenue. The increase was primarily due to the development of the growth of sales of IC and other electronic components driven by the one-step services from the online platform.

Cost of Revenue

Cost of revenue for the year ended December 31, 2016 was RMB11,870.3 million, representing an increase of 36.6% from RMB8,688.6 million for the year ended December 31, 2015. Cost of revenue for the year ended December 31, 2016 was partially offset by supplier rebates and discounts of RMB399.0 million. The increase in cost of revenue was due to the increase of direct sales.

Gross Profit

Gross profit for the year ended December 31, 2016 was RMB1,062.5 million, representing an increase of 38.9% from RMB764.8 million compared with the figures in 2015. The increase was primarily driven by increase of sales.

Other Income

For the year ended December 31, 2016, other income of the Group amounted to RMB28.3 million, representing an increase of RMB2.4 million or 9.3% as compared with RMB25.9 million in 2015. This is mainly because of the realized gain on the investment of trading securities.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended December 31, 2016 amounted to RMB218.1 million, representing an increase of RMB66.5 million or 43.9% from RMB151.6 million in 2015. This was primarily due to the expansion in operations which increased the headcount for marketing and sales supporting staff. Marketing and promoting expense also contributed to the increase in selling and distribution expenses.

Research and Development Expenses

Research and development ("**R&D**") expenses for the year ended December 31, 2016 amounted to RMB62.6 million, representing an increase of RMB6.7 million or 12.0% from RMB55.9 million in 2015. This was primarily due to more stock based compensation expense for 2016.

Administrative and Other Operating Expenses

During the year, administrative and other operating expenses amounted to RMB160.9 million, representing an increase of RMB31.2 million or 24.1% from RMB129.7 million in 2015, which was primarily due to the introduction of senior management by the Group. Also, as a result of an increase in revenue, more expense was spent on bank charges.

Income Tax

Our income tax increased by 50.6% from approximately RMB56.9 million for the year ended December 31, 2015 to approximately RMB85.7 million for the year ended December 31, 2016, primarily due to increase in profit from operation. The effective tax rate for the year ended December 31, 2016 was 14.4%, as compared to 13.4% for the year ended December 31, 2015. The increase was mainly due to increased profits of PRC companies. The income tax rate in the PRC is 25% while the profits tax rate in Hong Kong is 16.5%.

Profit Attributable to Equity Shareholders of the Company for the Reporting Period

For the year ended December 31, 2016, profit attributable to equity shareholders of the Company amounted to RMB478.8 million, representing an increase of RMB135.9 million or 39.6% as compared to RMB342.9 million in 2015. The increase of profit was primarily due to increase of revenue.

Liquidity and Source of Funding

As of December 31, 2016, the current assets of the Group amounted to RMB8,246.9 million, which mainly comprised cash and bank balances (including pledged deposits), inventories and trade and other receivables, in the amount of RMB3,478.0 million, RMB1,394.8 million and RMB2,095.6 million, respectively. Current liabilities of the Group amounted to RMB4,945.2 million, of which RMB3,797.4 million was bank loans and RMB1,027.1 million was trade and other payables. As of December 31, 2016, the current ratio (the current assets to current liabilities ratio) of the Group was 1.67, representing an increase of 7% as compared with 1.56 as of December 31, 2015. The current ratio was similar with the ratio in 2015.

The Group does not have other debt financing obligations as of December 31, 2016 or the date of this annual report and does not have any breaches of financial covenants.

Capital Expenditure

For the year ended December 31, 2016, the capital expenditure of the Group amounted to approximately RMB11.2 million, representing an increase of RMB6.0 million or 115.4% compared with RMB5.2 million in 2015. The increase in the capital expenditure was primarily due to business expansion and the need of newly established companies.

Net Gearing Ratio

As of December 31, 2016, the net gearing ratio of the Group, which was calculated by dividing net debt (total bank loans minus cash and cash equivalents and pledged deposits) by total equity, was 8.7% as compared with –7.3% as of December 31, 2015. The increase was primarily due to the increase of bank loans due to an increase in bank borrowings for the expanding business of the Group.

Material Investments

The Group made investments in unlisted funds amounted to RMB471.2 million in 2016. The investments in unlisted funds are managed by a third party investment entity incorporated in the PRC.

Material Acquisitions and Disposals

The Group did not have any material acquisitions and disposals for the year ended December 31, 2016.

Pledge of Assets

Except for the pledged bank deposits of RMB1,652.4 million and RMB1,247.0 million as of December 31, 2016 and December 31, 2015, respectively, the Group did not pledge any assets as of December 31, 2016 and December 31, 2015. The pledged bank deposits were placed as security for credit facilities granted by several banks in Hong Kong.

Contingent Liabilities

Neither the Group nor the Company had any significant contingent liabilities as of December 31, 2016. As of December 31, 2016, the Company issued several guarantees to banks in respect of the banking facilities granted to subsidiaries of the Company. The maximum liability of the Company at the end of the Reporting Period under these guarantees issued is the outstanding amount of the bank loans drawn down by the subsidiaries. As of December 31, 2016, management of the Company did not consider it is probable that a claim will be made against the Company under any of the guarantees.

Foreign Exchange Exposure

Foreign currency transactions during the year ended December 31, 2016 are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling as at December 31, 2016. Exchange gains and losses are recognized as profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates when the fair value was determined.

The results of operations with functional currency other than Renminbi ("**RMB**") are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Consolidated statements of financial position items are translated into RMB at the closing foreign exchange rates as at December 31, 2016. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than RMB, the cumulative amount of the exchange differences relating to that operation with functional currency other than RMB is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

Review of Our Consolidated Financial Information

We have established an audit committee in compliance with the Corporate Governance Code. The members of the audit committee have discussed with the management of our Company and reviewed the consolidated financial information of our Company for the financial year ended December 31, 2016 set out in this annual report.

DIRECTORS AND SENIOR MANAGEMENT

Our Directors

As at the date of this annual report, the Board consists of seven Directors, comprising of three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The functions and duties of the Board include convening Shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed at these meetings, determining business and investment plans, formulating our annual budget and final accounts, and putting forward our proposals for profit distributions and for the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Memorandum and Articles of Association.

The table below contains certain information about each of our Directors.

Name	Age	Position	Date of Appointment as Director	Date of Joining the Group (including the predecessor entities)
KANG Jingwei, Jeffrey	47	Executive Director, Chairman, and Chief Executive Officer	March 2014	July 2000
WU Lun Cheung Allen	42	Executive Director, Chief Financial Officer and Company Secretary	March 2014	October 2003
NI Hong, Hope	44	Executive Director	March 2015	September 2010
GUO Jiang	44	Non-executive Director	March 2015	March 2015
ZHONG Xiaolin, Forrest	51	Independent Non-executive Director	July 2014	July 2014
YE Xin	53	Independent Non-executive Director	July 2014	July 2014
YAN Andrew Y	59	Independent Non-executive Director	July 2014	July 2014

Executive Directors

KANG Jingwei, Jeffrey (康敬偉), aged 47, is the founder and chairman of our Group, and was appointed as an Executive Director of our Company in March 2014. He has been appointed as our Chief Executive Officer since July 18, 2014. Mr. Kang is responsible for the overall strategic planning and business direction of the Group. Mr. Kang is also a director of the following companies of the Group:

— Cogobuy Group, Inc. (formerly known as Vision Well Global Limited); and

— Comtech Broadband Corporation Limited.

Mr. Kang earned his bachelor of engineering degree in electrical engineering from South China Technology University in Guangzhou, China in July, 1991. Mr. Kang has over 25 years of experience in the Internet multimedia and electronic component distribution industry. Prior to founding the Company in 2002, Mr. Kang founded the predecessor of a former NASDAQ listed company Viewtran Group, Inc. ("**Viewtran**") (OTCMKTS: VIEWF), formerly known as Comtech Group to act as a distribution channel for the sale of electronic components in the PRC and has served as an executive director of Viewtran until May 2014. Mr. Kang also founded an Internet multimedia company Viewtran Inc. in 2000.

WU Lun Cheung Allen (胡麟祥), aged 42, is the Chief Financial Officer and Company Secretary of our Group and was appointed as an Executive Director of our Company in March 2014. Mr. Wu is responsible for the overall financial operation, investor relations and secretarial matters of the Group.

Mr. Wu received his bachelor of business administration degree in accounting from The Hong Kong University of Science and Technology in Hong Kong in November 1997. Mr. Wu became an associate member of the Hong Kong Institute of Certified Public Accountants in October 2000, and later became a Certified Public Accountant, after registering his practicing certificate from the Hong Kong Institute of Certified Public Accountants in May 2009. He also became a member of the American Institute of Certified Public Accountants in July 2000 and later a Chartered Global Management Accountant of the American Institute of Certified Public Accountants in August 2012. Mr. Wu has over 15 years of experience in auditing and commercial consulting. He worked at PricewaterhouseCoopers from 1997 to 2003, before becoming the vice president of finance at Viewtran from 2003 to 2013, where he was in charge of corporate finance, compliance and investment matters.

NI Hong, Hope (倪虹), aged 44, is the Chief Investment Officer of our Group and was appointed as an Executive Director of our Company in March 2015. Ms. Ni is responsible for heading the Company's capital market activities and investment initiatives.

Ms. Ni is currently serving as an independent director of JA Solar Holdings, Co. Ltd., a NASDAQ listed company (NASDAQ: JASO), ATA Inc., a NASDAQ listed company (NASDAQ: ATAI) and KongZhong Corporation, a NASDAQ listed company (NASDAQ: KZ). Ms. Ni is also currently serving as an independent non-executive director of Digital China Holdings Limited (stock code: 861), a company listed on the Stock Exchange.

Previously, Ms. Ni served as the chief financial officer and director of Viewtran from August 2004 to January 2008 and subsequently served as its vice chairman until early 2009. Prior to joining Viewtran, Ms. Ni spent six years serving as a practicing attorney at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong, specializing in corporate finance. Prior to that, Ms. Ni worked at Merrill Lynch's investment banking division in New York.

Ms. Ni obtained her Juris Doctor degree from the University of Pennsylvania Law School in 1998 and her bachelor's degree in applied economics and business management from Cornell University in 1994.

Non-executive Director

GUO Jiang (郭江), aged 44, was appointed as a Non-executive Director of our Company in March 2015.

Mr. Guo is currently serving as an executive director of Digital China Group Co., Ltd. (stock code: 000034), a company listed on the Shenzhen Stock Exchange. He is also an executive director and the chief executive officer of HC International, Incorporation ("**HC International**") (stock code: 2280), a company listed on the Stock Exchange. Mr. Guo joined the HC International Group in 1996 as a sales manager and became the chief executive officer of HC International in 2008 and is responsible for overseeing its operations. Prior to that, Mr. Guo spent two years at the Broadcasting Science Institute of the State Administration of Radio, File and Television as an assistant to director.

Mr. Guo obtained his bachelor's degree in computer science from the Harbin University of Commerce in 1994. He also attended the Business Administration Course for Senior Management of Modern Enterprises conducted by Guanghua Business School of Peking University in 2002.

Independent Non-executive Directors

ZHONG Xiaolin, Forrest (鍾曉林), aged 51, was appointed as an Independent Non-executive Director of our Company and the Chairman and a member of the audit, remuneration and nomination committees of our Company since July 18, 2014. Dr. Zhong is our Director who has appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules. Dr. Zhong received his bachelor's and masters' degrees in engineering from Huazhong University of Science and Technology in Hubei, China in April 1986 and April 1989, respectively, a Ph.D. degree in Robotics & Artificial Intelligence from Edinburgh Napier University, Scotland in December 1995, and his M.B.A. from the Ivey School of Business at the University of Western Ontario, Canada in May 2003. In July 2010, Dr. Zhong completed the Stanford Executive Program (SEP) at the Graduate School of Business of Stanford University, United States. From 2001 to 2005, Dr. Zhong was a director in charge of investments in China and Hong Kong at JAFCO Investment (Hong Kong) Limited.

Dr. Zhong has also served as the managing director and general partner at TDF Capital LLP since 2005, and as the managing partner at KPCB China Fund LLP from April 2007 to January 2011. Dr. Zhong was named in the Midas List by Global Entrepreneur & China Venture in 2007, and was selected as one of the best venture capitalists in China by Forbes from 2008 to 2015 consecutively. Over the past three years, Dr. Zhong has acted as an independent non-executive director of Visual China Group (SZ: 000681) and as a non-executive director of Sungrow Power Co., Ltd. (SZ: 300274).

YE Xin (葉忻), aged 53, was appointed as an Independent Non-executive Director of our Company and a member of the audit, remuneration and nomination committees of our Company since July 18, 2014. Mr. Ye received his bachelor of engineering degree (計算機科學與技術系) from Tsinghua University, China in June 1986, and a master of science degree in Computer Science from Marquette University in Wisconsin, United States in May 1988. From 2003 to 2006, Mr. Ye was the chief technology officer of Linktone, a top wireless entertainment service provider in China. Since 2006, Mr. Ye was the chief executive officer of CASEE Mobile Ads (架勢無線), China's leading mobile ad network for Android/iPhone applications and mobile content.

YAN Andrew Y (閻焱), aged 59, was appointed as an Independent Non-executive Director of our Company and a member of the audit, remuneration and nomination committees of our Company in July 2014. Mr. Yan obtained his bachelor's degree in engineering from Nanjing Aeronautic Institute (now named as Nanjing University of Aeronautics and Astronautics), China in 1982. He has also obtained a master of arts in international political economy from Princeton University in 1989. Mr. Yan is the managing partner of SAIF Partners. From 1989 to 1991, Mr. Yan worked at the Policy, Planning, and Research Division of the World Bank on several major projects on the reform of Chinese enterprise and welfare systems. From 1991 to 1993, Mr. Yan was a research fellow at Hudson Institute in Washington, D.C. From 1993 to 1994, Mr. Yan was a Director of Strategic Planning and Business Development for the Asia Pacific region at Sprint International Corporation. From 1994 to 2001, Mr. Yan worked as the managing director and Head of Hong Kong Office of the Emerging Markets Partnership, the management company of AIG Asian Infrastructure Fund and was in charge of the investment in Northeast Asia and Greater China region before he joined SAIF Partners.

Mr. Yan currently holds directorships in the following listed companies:

Company	Stock Code	Position
China Petroleum & Chemical Corporation	New York Stock Exchange and London Stock Exchange: SNP; Shanghai Stock Exchange: 600028; Hong Kong Stock Exchange: 386	Independent Non-executive Director
China Resources Land Limited	Hong Kong Stock Exchange: 1109	Independent Non-executive Director
Guodian Technology & Environment Group Corporation Limited	Hong Kong Stock Exchange: 1296	Non-executive Director
China Huiyuan Juice Group Limited	Hong Kong Stock Exchange: 1886	Non-executive Director
eSun Holdings Limited	Hong Kong Stock Exchange: 571	Non-executive Director
ATA Inc.	NASDAQ: ATAI	Director
ATA Online (Beijing) Education Technology Co., Ltd.	National Equities Exchange and Quotations System of China: 835079.OC	Director
Sky Solar Holdings, Ltd.	NASDAQ: SKYS	Independent Director
BlueFocus Communication Group	ChiNext of Shenzhen Stock Exchange: 300058.SZ	Independent Director
TCL Corporation	Shenzhen Stock Exchange: 000100.SZ	Independent Director

Over the past three years, Mr. Yan was an independent non-executive director of Fosun International Limited (stock code: 656), CPMC Holdings Limited (stock code: 906) and China Mengniu Diary Company Limited (stock code: 2319); an independent director of Giant Interactive Group Inc. (withdrawn from listing in NYSE on 18 July 2014), a director of Acorn international Inc., (NYSE: ATV), China Digital TV Holding Co., Ltd (NYSE: STV), Eternal Asia Supply Chain Co., Ltd (SZ: 2183); and a non-executive director of Digital China Holdings Limited (stock code: 861), MOBI Development Co., Ltd (stock code: 947) and NVC Lighting Holding Limited (stock code: 2222).

Our Senior Management

The senior management team of our Group, in addition to the executive Directors listed above, is comprised of the following:

Name	Age	Position
LI Feng	51	Senior vice-president
CHAN Edward	53	Vice-president of operations
LI Henry	49	Vice-president of business

LI Feng (李峰), aged 51, is the Senior Vice-president of the Company and is primarily responsible for development of the Cogobuy.com, an e-commerce and social media marketing platform. Mr. Li received his bachelor of science degree in computer science from Tsinghua University, China in June 1987, and master of science degree in computer science from Marquette University in Milwaukee, United States in May 1989. Between 1990 and 1999, Mr. Li worked at Informix Software. Between 1999 and 2000, Mr. Li worked for Shanghai Siemens as its chief representative and project director. Between 2002 and 2006, Mr. Li served as the chief operating officer of Viewtran Inc.

CHAN Edward (陳劍雄), aged 53, is the Vice-president of operations of the Company and is primarily responsible for general administrative operations of the Group, including human resources, customer service, logistics and warehousing. Mr. Chan received his bachelor of science degree in mechanical engineering from the University of Hong Kong, Hong Kong in November 1985. Between 1987 and 2002, Mr. Chan worked and later served as a senior manager of Panasonic Shun Hing Industrial Devices Sales (Hong Kong) Co., Ltd. Between 2004 and February 2013, Mr. Chan was the vice president of operations of Viewtran, and was in charge of the company's customer administration and logistics operations.

LI Henry (李宏輝), aged 49, is the Vice-president of business of the Company and is primarily responsible for the overall business and market development of the Group. Mr. Li earned his bachelor of science degree in radio technology, and master of science degree in Telecommunication and Electronic System from Tianjin University, China in July 1989 and April 1992 respectively. In 1994, Mr. Li focused on teaching and research at Tianjin University. From June 1995 to September 1996, Mr. Li worked at Samsung Electronics Co., where he served as a researcher at ASIC R&D center. Mr. Li was the general manager (Business Unit) of Comtech Communication (SZ) from 2002 to 2013.

The Directors hereby present the annual report together with the audited consolidated financial statements of the Company and the Group for the year ended December 31, 2016.

Corporate Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 1, 2012. The Company's Shares were listed on the Main Board of the Hong Kong Stock Exchange on July 18, 2014.

Principal Activities and Subsidiaries

The Company is a leading e-commerce company dedicated to serving the electronics manufacturing industry in China. The Company operates the largest transaction-based e-commerce platform for IC and other electronic components in China as measured by GMV since 2013, according to Analysys International, an independent industry consultant. Through its e-commerce platform, including a direct sales platform, an online marketplace and a dedicated team of technical consultants and professional sales representatives, the Group provides its customers with comprehensive online and offline services across pre-sale, sale and post-sale stages. In 2016, the Group fulfilled orders and derived a GMV of approximately RMB21.65 billion, of which 59.26% was derived from direct sales value, 27.43% from transaction value in online marketplace and 13.31% from loan value in supply chain financing business. The Group serves electronics manufacturers including SMEs, which it believes it represents a lucrative and fast-growing segment of the IC and other electronic components market with a significant demand for our services. The Group offers a wide selection of products at competitive prices through our e-commerce platform, which are sourced from approximately 11,020 suppliers, including some of the top brand-name suppliers in key product categories. A list of the Company's subsidiaries, together with their places of incorporation and principal activities, is set out in note 15 to the financial statements.

Business Review

The business review of the Group during the year ended December 31, 2016 (including an analysis of the Group's performance during the year using key performance indicators and a discussion of the Group's future business development) is set out in the Chairman's Statement on page 5 of this annual report. A description of the principal risks and uncertainties facing the Company is set out on page 19 of this Directors' report.

Compliance with the Relevant Laws and Regulations

As far as the Board of Directors and management are aware, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended December 31, 2016, there was no material breach of, or non-compliance, with the applicable laws and regulations by the Group.

Relationship with Employees

Recognizing the value of investing in its employees, the Group ensures that they are reasonably remunerated. The Group has also implemented an annual self-appraisal program to provide incentive and motivation to the staff to attain periodic goals. The Company has adopted a restricted share unit scheme ("**RSU Scheme**") to reward the fidelity of the employees of the Group. The Group continues to seek improvement through the regular review and update (if needed) on its policies on remuneration and benefits, training, occupational health and safety.

Relationship with Suppliers, Customers and other Stakeholders

The Group understands the importance of maintaining good relationships with its suppliers and customers to meet its immediate and long-term goals. Our customer service team is set up so that they can be easily reached and enhance our relationships with customers. Our procurement and project management teams work closely with our suppliers to maintain reliable and high-quality product offerings. With the expansion of our INGDAN.com platform, the Group strives to provide one-stop supply chain services to all stakeholders in the hardware innovation industry. The Group is committed to upholding the highest ethical and professional standards when dealing with its suppliers and contractors. During the year ended December 31, 2016, there were no material and significant disputes between the Group and its suppliers, customers and other stakeholders.

Environmental Policies and Performance

The Group is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavors to comply with the applicable environmental laws and regulations and to adopt effective measures to ensure the efficient usage of resources, energy conservation and waste reduction. Such initiatives include the recycling of used papers, the adoption of energy saving measures, the exchange of unsold inventory for new products or credit with major suppliers, the adoption of electronics waste disposal procedures and the donation of old computers to a school in a remote area of China. During the year ended December 31, 2016, we had not been subject to any fines or other penalties due to any non-compliance with health, safety or environmental regulations.

Corporate Governance

Information on the principal corporate governance practices adopted by the Company during the year ended December 31, 2016 is set out in the Corporate Governance Report on pages 41 to 50 of this annual report.

Principal Risks and Uncertainties

The following section lists out the key risks and uncertainties facing the Group, some of which are beyond our control. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below.

- We derive our revenue substantially from purchases made by companies in China that engage in electronics manufacturing. As a result, factors that adversely affect Chinese electronics manufacturers or the Chinese electronics manufacturing industry could also materially and adversely affect our business, financial condition, results of operations and prospects.

- If we fail to manage our relationships with our suppliers, our business and prospects may be adversely affected. We source our products from approximately 11,020 suppliers, mainly including some of the top branded suppliers in key product categories. Maintaining good relationships with these suppliers and procuring products from suppliers on favorable terms are important to the growth of our business. There can be no assurance that our current suppliers will continue to sell IC and other electronic components to us on terms acceptable to us, or that we will be able to establish new or extend current supplier relationships to ensure a steady supply of IC and other electronic components in a timely and cost-efficient manner in the future.

- Our business is subject to intense competition, and we may fail to compete successfully against existing or new competitors, which may result in reduction of demand for our services and products. We anticipate that China's electronic components procurement market will continually evolve. As we further develop our e-commerce platform, we will face increasingly competitive challenges in terms of competing for new customers and retaining loyal customers.

- We rely on third-party courier service providers to deliver our products, and their failure to provide high-quality courier services to our customers may negatively impact the procurement experience of our customers, damage our market reputation and materially and adversely affect our business and results of operations. If our products are not delivered on time or in a damaged state, customers may refuse to accept our products and have less confidence in our services. Thus, we may lose customers, and our financial condition and market reputation could suffer.

- Uncertainties regarding the growth and sustained profitability of e-commerce in China could adversely affect our net revenues and business prospects and the trading price of our Shares. The continued growth in our revenue and profit is substantially dependent upon the widespread acceptance and use of the Internet as a medium for commerce by businesses. A decline in the popularity of purchasing on the Internet in general, or any failure by us to adapt our e-commerce platform and improve the online shopping experience of our customers in response to trends and consumer requirements, will adversely affect our net revenues and business prospects.

Directors

The Directors during the year ended December 31, 2016 and up to the date of this report were:

Executive Directors:

Mr. KANG Jingwei, Jeffrey *(Chairman and Chief Executive Officer)*
Mr. WU Lun Cheung Allen *(Chief Financial Officer and Company Secretary)*
Ms. NI Hong, Hope *(Chief Investment Officer)*

Non-executive Director:

Mr. GUO Jiang

Independent Non-executive Directors:

Mr. ZHONG Xiaolin, Forrest
Mr. YE Xin
Mr. YAN Andrew Y

In accordance with articles 84(1) and (2) of the Articles of Association, Mr. Kang Jingwei, Jeffrey, Mr. Wu Lun Cheung Allen and Ms. Ni Hong, Hope shall retire at the annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

Mr. Kang Jingwei, Jeffrey and Mr. Wu Lun Cheung Allen have entered into the service agreements with our Company pursuant to which they agreed to act as Executive Directors for an initial term of three years with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (whichever is sooner, subject always to re-election as and when required under the Articles of Association) or until terminated in accordance with the service agreements. The Company has the right to give written notice to terminate the agreement.

Mr. Zhong Xiaolin, Forrest, Mr. Ye Xin and Mr. Yan Andrew Y have signed the letters of appointment with our Company. The term of office of our Independent Non-executive Directors is three years with effect from the Listing Date or until the third annual general meeting of our Company since the Listing Date (whichever is sooner, subject to retirement as and when required under the Articles of Association) and subject to the terms and conditions specified in the appointment letters.

Ms. Ni Hong, Hope and Mr. Guo Jiang have signed the letters of appointment with our Company with effect from March 1, 2016 for a period of 3 years (subject always to retirement as and when required under the Articles of Association of the Company) unless otherwise terminated in accordance with the terms and conditions specified in the appointment letter.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts and Competing Businesses

Save as disclosed in note 30 to the financial statements headed "Material Related Party Transactions" and the section headed "Continuing Connected Transactions" of this annual report below, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ending December 31, 2016.

During the year ended December 31, 2016, neither the Directors nor the Controlling Shareholders of the Company engaged in any business that competed or might compete, either directly or indirectly, with the business of the Group.

Contracts of Significance with Controlling Shareholders

No contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2016.

Confirmation of Independence of Independent Non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and the Company considers each of the Independent Non-executive Directors to be independent.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and any Associated Corporation

As at December 31, 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executives are taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; (iii) required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange; or (iv) disclosed according to the knowledge of the Directors of the Company were as follows:

(i) Interests in the Shares

Name of Director	Nature of interest	Number of Shares[1]	Approximate percentage of shareholding[3]
Mr. Kang	Interest of controlled corporation[2]	700,000,000	46.63%
Mr. Kang	Beneficial owner	1,800,000	0.12%
Mr. Wu	Beneficial owner	1,800,000	0.12%

Notes:

(1) All the Shares are held in long position (as defined under Part XV of the SFO).

(2) Mr. Kang owns Envision Global as to 100%, which in turn owns these Shares. Mr. Kang is therefore deemed to be interested in these Shares held by Envision Global.

(3) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as at December 31, 2016.

(ii) Interests in the associated corporation

Name of Director	Name of associated corporation	Nature of interest	Number of securities interested	Approximate percentage of shareholding
Mr. Kang	Envision Global[2]	Beneficial owner	1 share	100%

Notes:

(1) All the shares are held in long position (as defined under Part XV of the SFO).

(2) Mr. Kang owns Envision Global directly as to 100%.

Save as disclosed above, as at December 31, 2016, so far as is known to any Director or the chief executive of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Part XV of the SFO (including the interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company

As at December 31, 2016, so far as the Directors are aware, the following substantial Shareholders have interests and short positions in the Shares and underlying Shares of the Company, which have been recorded in the register of substantial Shareholders are required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

Name	**Nature of Interest**	**Number of Shares[1]**	**Approximate percentage of interest in the Company[4]**
Envision Global	Beneficial owner	700,000,000	46.63%
Mr. Kang[2]	Interest of a controlled corporation	700,000,000	46.63%
Mr. Kang	Beneficial owner	1,800,000	0.12%
Total Dynamic	Beneficial owner	210,824,000	14.04%
Ms. Yao[3]	Interest of a controlled corporation	210,824,000	14.04%

Notes:

(1) All the Shares are held in long position (as defined under Part XV of the SFO).

(2) Mr. Kang owns Envision Global as to 100%, which in turn owns these Shares. Therefore, Mr. Kang is deemed to be interested in these Shares held by Envision Global.

(3) Ms. Yao owns Total Dynamic as to 100%, which in turn owns these Shares. Therefore, Ms. Yao is deemed to be interested in these Shares held by Total Dynamic.

(4) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as at December 31, 2016 (without taking into account the Shares to be issued pursuant to the RSU Scheme).

Save as disclosed above, as at December 31, 2016, the Directors have not been notified by any person who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Directors' and Senior Executives' Emoluments and Five Highest Paid Individuals

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group are set out in notes 7 and 8 to the financial statements, respectively. None of the Directors has waived or agreed to waive any emoluments during the year ended December 31, 2016.

Permitted Indemnity Provisions

During the year ended December 31, 2016 and up to the date of this annual report, the Group has in force indemnity provisions for the benefit of the Directors of the Company or its associated companies. Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles of Association.

Remuneration Policy

As at December 31, 2016, the Group had approximately 802 full-time or equivalent employees. Employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications, competence, matching of the post and contribution to the Group.

Compensation of key executives of the Group is determined by the Company's remuneration committee which reviews and determines executives' compensation based on the Group's performance and the executives' respective contributions to the Group.

The Company also has an RSU scheme.

The total remuneration cost incurred by the Group for the year ended December 31, 2016 was RMB155.7 million.

RSU Scheme

The Company has adopted a restrictive share unit scheme ("**RSU Scheme**") on March 1, 2014, which was amended on December 21, 2014. The purpose of the RSU Scheme is to reward the fidelity of the directors, executive officers, senior managers and employees of the Company and of its subsidiaries (collectively, "**Scheme Companies**" and each, a "**Scheme Company**") and align their interests with those of the Shareholders.

The grant of the RSUs recognized the contribution of the Scheme Companies' directors, executive officers, senior managers and employees to the historical achievements of the Company. The Company has the intention to continue exploring ways to incentivise, retain and reward Scheme Companies' directors, executive officers, senior management and employees and may implement other RSU schemes or other share-based remuneration schemes in the future. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. To satisfy the grant of Shares under the RSU Scheme, 14,107,500 ordinary Shares of the Company were issued in aggregate on October 23, 2015.

Details of the movement of the RSUs granted pursuant to the RSU Scheme to the Directors and employees during the year ended December 31, 2016 are set out below:

Name of participants	Date of award	Number of Shares underlying the RSUs granted	Vested as at December 31, 2016	Unvested as at December 31, 2016	Vesting Period
Directors					
Mr. Kang	March 1, 2014	1,800,000	1,800,000	—	600,000 Shares in each of 2014, 2015 and 2016 (in quarterly installments)
Mr. Wu	March 1, 2014	1,800,000	1,800,000	—	600,000 Shares in each of 2014, 2015 and 2016 (in quarterly installments)
Other grantees					
Other grantees with a vesting period of three years (note 1)	March 1, 2014	19,346,300	18,071,300	—	One-third of the entitlement in each of 2014, 2015 and 2016 (in quarterly installments)
Other grantees with a vesting period of one year (note 2)	March 1, 2014	7,253,700	6,423,200	—	December 31,2014
Other grantees with a vesting period of three years (note 3)	July 8, 2015	17,940,000	7,350,000	9,555,000	12 quarterly installments (from July 8, 2015 to July 7, 2018)

Note 1: During the year ended December 31, 2016, 1,275,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

Note 2: As at December 31, 2016, 830,500 awarded Shares were lapsed prior to its vesting date as a result of staff resignation.

Note 3: As at December 31, 2016, 1,035,000 awarded Shares were lapsed prior to its vesting date as a result of staff resignation.

Equity-Linked Investments

Save for the RSU Scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year or subsisted at the end of the year.

Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors' biographical details of the Company are set out below:

Mr. Guo Jiang

Mr. Guo has been appointed as an executive director of Digital China Group Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000034), with effect from March 28, 2016.

Mr. Yan Andrew Y

Mr. Yan has ceased to be a non-executive director of Digital China Holdings Limited, a company listed on the Stock Exchange (stock code: 861), with effect from July 1, 2016 and an independent non-executive director of CPMC Holdings Limited, a company listed on the Stock Exchange (stock code: 906), with effect from September 1, 2016.

Save as mentioned above, there is no other change in the Directors' information required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of publication of the 2015 annual report.

Financial Results

The results of the Group for the year ended December 31, 2016 are set out in the consolidated statement of comprehensive income on pages 67 and 68 of this annual report. The financial highlights for the Group for the most recent five years are set out on pages 150 and 151 of this annual report.

Liquidity and Source of Funding

Details of the liquidity and source of funding are set out in the management discussion and analysis on page 10.

Capital Structure

Details of the capital structure are set out in the note 27 to the financial statements.

Share Capital

On September 22, 2016, the Company had completed a placing of an aggregate of 160,420,232 new Shares at a placing price of HK$12.5 each Share to not less than six placees who and whose ultimate beneficial owner(s) are independent third parties, at the placing price of HK$12.50 per placing Share.

Details of the movements in share capital of the Company are set out in note 27 to the financial statements.

Reserves

Details of the movements in the reserves of the Company and the Group during the year ended December 31, 2016 are set out in note 27 to the financial statements and the consolidated statement of changes in equity on page 72 of this annual report.

Dividends

The Board does not recommend the distribution of a final dividend for the year ended December 31, 2016 (2015: nil).

Donations

During the year ended December 31, 2016, the Group has made an aggregate of RMB100,000 (2015: nil) in charitable and other donations.

Foreign Currency Exposure

Details of the foreign currency exposure are set out in the management discussion and analysis on page 11.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2016 are set out in note 22 to the financial statements.

Purchase, Sales or Redemption of our Company's Shares

During the year ended December 31, 2016, the Company repurchased an aggregate of 39,179,000 Shares (2015: 23,890,000 Shares) of its own issued ordinary share capital through the Hong Kong Stock Exchange at an aggregate consideration of HK$441.6 million (2015: HK$101.3 million) (equivalent to RMB381.7 million (2015: RMB82.6 million)).

All the Shares repurchased were cancelled, of which 3,417,000 Shares were cancelled on February 12, 2016, 1,095,000 Shares were cancelled on February 29, 2016, 3,604,000 Shares were cancelled on May 31, 2016, 1,812,000 Shares were cancelled on June 3, 2016, 8,722,000 Shares were cancelled on November 30, 2016, 2,760,000 Shares were cancelled on December 12, 2016, 2,091,000 Shares were cancelled on January 5, 2017, 12,395,000 Shares were cancelled on January 11, 2017, and 3,283,000 Shares were cancelled on February 3, 2017.

Subsequent to the Reporting Period, the Company repurchased an aggregate of 1,883,000 Shares of its own issued ordinary share capital through the Hong Kong Stock Exchange at an aggregate consideration of HK$20.4 million (equivalent to RMB17.6 million). As of the date of this annual report, all 1,883,000 Shares were cancelled.

The repurchases were effected by the Directors for the benefit of the Company and to create value to its Shareholders.

Further details of the Share repurchase and other movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

Save for the aforesaid, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange during the year ended December 31, 2016.

Use of Proceeds from the Global Offering

The total gross proceeds from the listing of the Shares amounted to approximately HK$1,375 million. During the period between the Listing Date and December 31, 2016, the net proceeds were utilized in accordance with the purpose as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated July 8, 2014. The balance of funds would be utilized according to the purposes as set out in the prospectus.

Use of Proceeds from Placing

On September 22, 2016, the Company had completed a placing of an aggregate of 160,420,232 new Shares at a placing price of HK$12.5 each share. An aggregate of 160,420,232 new placing shares, representing approximately 10.60% of the enlarged issued share capital of the Company immediately after Completion, have been successfully placed to not less than six placees who and whose ultimate beneficial owner(s) are third parties independent of the Company. Placees included Da Cheng International Asset Management Co., Ltd, Lindeman Asia Global Pioneer Private Equity Fund No. 11 (with the National pension service, Korea Development Bank, Korea Teachers' Credit Union, Korea Post being its ultimate investors), China Reinsurance (Group) Corporation, The People's Insurance Company (Group) of China Limited, New China Asset Management (Hong Kong) Limited and 重慶高新創投兩江品牌汽車產業投資中心(有限合夥).

The placing price of HK$12.50 per placing share represents (i) a discount of approximately 0.16% to the closing price of HK$12.52 per Share as quoted on the Hong Kong Stock Exchange on September 1, 2016, being the date of the placing agreement, (ii) a premium of approximately 2.59% to the average closing price of approximately HK$12.18 per Share as quoted on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of the placing agreement and (iii) a premium of approximately 2.09% to the average closing price of approximately HK$12.24 per Share as quoted on the Hong Kong Stock Exchange for the twenty trading days immediately preceding the date of the placing agreement. The net proceeds from the placing of new Shares amounted to HK$2,000,603,000 (equivalent to RMB1,719,913,000), after the deduction of the placing commission and other related expenses, of approximately HK$4,649,900, representing a net issue price of approximately HK$12.47 per placing share. The Company intends to use the net proceeds as general working capital of the Group.

The Directors consider that the placing represents an opportunity to raise additional funding for the business operations of the Group and will strengthen the Group's financial position, and enlarge the shareholders base of the Company which may in turn enhance the liquidity of the Shares, and provide working capital to the Group to meet any financial obligations of the Group.

For further details, please refer to the Company's announcements dated September 1, 2016 and September 22, 2016.

Net Gearing Ratio

Details of the net gearing ratio are set out in the management discussion and analysis on page 10.

Contingent Liabilities

Details of the contingent liabilities are set out in the note 29 to the financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment during the year are set out in note 11 to the financial statements.

Property Held for Development, Sale or Investment

There is no property held for development, sale or investment for which the percentage ratios (as defined under rule 14.04(9) of the Listing Rules) exceed 5% as at December 31, 2016.

Available-for-sale investments

The Group makes available-for-sale investments for the purposes of (i) the Group's initiatives to extend financial services and resources to IoT hardware innovators and startup companies and (ii) surplus cash management. As at December 31, 2016, the Company's available-for-sale assets amounted to RMB578.6 million.

As at December 31, 2016 , the Group's diverse IoT investment initiatives amounted to RMB21.9 million in unlisted available-for-sale equity securities, which included a direct equity investment to support an innovation company's expansion of its new product development, the provision of much needed resources to selected startups under the Group's "shares for services" (服務換股權) program and an investment in a "smart-tech fund" that focuses on providing early-stage funding for companies of intelligent technologies based on human necessities. We believe that our IoT investment initiative is an important aspect of our vision to build a healthy IoT ecosystem that benefits our industry as a whole. The Group will continue to seek meaningful investment opportunities that not only create synergies on different levels but also offer high-yield return potentials.

The Company's surplus cash management policy aims at ensuring that our surplus funds are managed prudently to provide a reasonable return within an acceptable risk profile. Disposal of listed available-for-sale equity securities realized a net gain of RMB39.5 million for the year ended December 31, 2016. Performance of available-for-sale equity securities for the year ended December 31, 2016 was satisfactory and within the Company's risks tolerance range with impairment of RMB37.1 million. Investment in unlisted funds consists of notes with fixed interest return, which is managed by a third party investment entity. The annualized return rate of the investment in unlisted funds is 8%, which principle and return are guaranteed by the fund manager with its net asset. The Company will continue to monitor its available-for-sale investments and manage its surplus funds in a responsible manner.

Movement of available-for-sale investments

For the year ended December 31, 2016

	Available-for-sale equity securities		**Investment in unlisted funds**	**Total**
	Listed	**Unlisted**		
	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at January 1, 2016	111,330	3,000	—	114,330
Additions	257,712	18,891	471,212	747,815
Disposals	(297,221)	—	—	(297,221)
Net realized gain	39,509	—	—	39,509
Impairment	(37,144)	—	—	(37,144)
Transfer to fair value reserve	4,904	—	—	4,904
Exchange adjustments	6,445	—	—	6,445
Balance as at December 31, 2016	85,535	21,891	471,212	578,638

Connected Transactions

On December 11, 2015, Qianhai Cogobuy.com (Shenzhen) Limited ("**Qianhai Cogobuy.com**", 前海科通芯城通信技術(深圳)有限公司), Comtech Communication Technology (Shenzhen) Company Limited ("**Comtech Communication**", 科通通信技術(深圳)有限公司) and Shenzhen Comtech Small Loan Limited Company ("**Shenzhen Comtech**", 深圳市科通小額貸款有限責任公司) entered into a purchase option agreement (the "**Purchase Option Agreement**"), pursuant to which, among other things, it was agreed that Comtech Communication will grant Qianhai Cogobuy.com an option to acquire the entire equity interest in Shenzhen Comtech for a cash consideration of RMB300 million or part of the equity interest for a cash consideration proportional to the percentage of the equity interest being acquired. The option to acquire the equity interest in Shenzhen Comtech Small Loan Limited Company* has not been exercised as at the date of this annual report.

In connection with the Purchase Option Agreement, on December 11, 2015, Qianhai Cogobuy.com and Shenzhen Comtech entered into (1) the agency agreement (the "**Agency Agreement**"), pursuant to which Qianhai Cogobuy.com will provide certain client referral services to Shenzhen Comtech in exchange for agency fee payments amounting to 80% of the fees and interests payable by Shenzhen Comtech's clients to Shenzhen Comtech under any loan or cooperation agreement signed as a result of a referral by Qianhai Cogobuy.com to Shenzhen Comtech; and (2) the service agreement (the "**Service Agreement**"), pursuant to which Qianhai Cogobuy.com will provide certain administrative and consultancy services to Shenzhen Comtech in exchange for a service fee based on prevailing market rate of comparable services and amounting to no more than 1% of Shenzhen Comtech's yearly turnover.

Pursuant to the Agency Agreement, the annual caps set for the service fee payable by Shenzhen Comtech to Qianhai Cogobuy.com for the years ending December 31, 2015, December 31, 2016 and December 31, 2017 shall not exceed RMB400,000 (equivalent to approximately HK$500,000), RMB12,000,000 (equivalent to approximately HK$15,000,000) and RMB16,000,000 (equivalent to approximately HK$20,000,000), respectively.

Pursuant to the Service Agreement, the annual caps set for the provision of the certain administrative and consultancy services to Shenzhen Comtech by Qianhai Cogobuy.com for the years ending December 31, 2015, December 31, 2016 and December 31, 2017 shall not exceed RMB100,000 (equivalent to approximately HK$125,000), RMB3,000,000 (equivalent to approximately HK$3,750,000) and RMB4,000,000 (equivalent to approximately HK$5,000,000), respectively.

Mr. Kang Jingwei, Jeffrey is the Chairman, Chief Executive Officer and an Executive Director of the Company. Mr. Kang holds approximately 47.32% of the total issued share capital of the Company and is a Controlling Shareholder. Comtech Communication and Shenzhen Comtech are indirect wholly-owned subsidiaries of Envision Global Investments Limited, which in turn is owned by Mr. Kang as to 100%. Comtech Communication and the Shenzhen Comtech are therefore associates of Mr. Kang and connected persons of the Company.

Accordingly, the Purchase Option Agreement entered into between Qianhai Cogobuy.com, Comtech Communication and Shenzhen Comtech constitutes a connected transaction of the Company, and each of the Agency Agreement and the Service Agreement entered into between Qianhai Cogobuy.com and Shenzhen Comtech constitute a continuing connected transaction of the Company. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

For further details of the above agreements, please refer to the Company's announcement dated December 14, 2015 and the circular dated January 18, 2016.

Continuing Connected Transactions

Updates in relation to the Qualification Requirement

At the time of adoption of the contractual arrangements by the Company, under the subsequent effective PRC law, the value-added telecommunications business of Shenzhen Cogobuy (i.e., the e-commerce business) was subject to restriction on the percentage of foreign ownership under the Guiding Catalogue for Foreign Investment Industries of 2011 (the "**2011 Catalogue**") and the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises promulgated by the State Council on December 11, 2001, which were subsequently amended on September 10, 2008 (the "**FITE Regulations**"), that is, foreign investors were not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including internet content provision services.

In addition, a foreign investor who invests in a value-added telecommunications businesses in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas ("**Qualification Requirement**").

On March 10, 2015, the Guiding Catalogue for Foreign Investment Industries of 2015 (the "**2015 Catalogue**") was promulgated and has replaced the 2011 Catalogue after it came into effect on April 10, 2015. Further, on June 19, 2015, the Ministry of Industry and Information Technology ("**MIIT**") promulgated the Circular on Lifting the Restriction on Foreign Shareholding in Online Data Processing and Transaction Processing Services (Operational E-commerce Businesses) (MIIT [2015] No. 196) (the "**196 Circular**"), which came into immediate effect on the date of promulgation. According to the 2015 Catalogue and the 196 Circular, the restriction on foreign ownership (i.e., not to exceed 50%) has been lifted for e-commerce businesses, which means that foreign-invested companies with 100% foreign ownership are now able to carry out the e-commerce business.

However, even though the 2015 Catalogue and the 196 Circular have come into force, it is not certain whether the Company can operate the business of Shenzhen Cogobuy without the contractual arrangements because the Qualification Requirement remains existent and unchanged.

Currently, none of the applicable PRC laws, regulations or rules provides clear guidance on the interpretation of the Qualification Requirement. Accordingly, the interpretation of the Qualification Requirement will mainly be subject to the administrative discretion of the MIIT, and there do exist practical uncertainties as to whether the Company will be regarded as having fulfilled the Qualification Requirement by the MIIT, even though the Company has taken measures to build up its track record of overseas telecommunications business operations as detailed below. According to the Information Disclosure System of MIIT, since promulgation of the 196 Circular, nationwide only a very limited number of foreign invested companies have obtained the Electronic Data Interchange License (the "**EDI license**"), which is the license required for the e-commerce business under the 196 Circular, taking place of the previously required ICP license. Therefore, it is uncertain whether the Company could directly hold Shenzhen Cogobuy through equity ownership without having any adverse impact on the e-commerce business conducted by Shenzhen Cogobuy or otherwise on the ICP license held by Shenzhen Cogobuy or the EDI license which Shenzhen Cogobuy is currently applying for.

Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Company has been gradually building up the track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests of Shenzhen Cogobuy.

The Company has four operating subsidiaries incorporated in Hong Kong whose principal business activities are sales of electronic components and related products, including Comtech International, Broadband Corporation, Comtech Industrial and Comtech Digital HK. These Hong Kong subsidiaries maintain the Group's cloud service and database, provide services that support our cogobuy.com e-commerce platform including technical support for overseas users of our e-commerce platform, including suppliers, and also engage in the operation of our online data analysis system, inventory management system and delivery tracking system. We believe that such business activities help to demonstrate our experience in areas related to overseas value-added telecommunications business. In particular, according to the Catalogue of Telecommunications Businesses attached to the Telecommunications Regulations of the PRC, value-added telecommunication services include, among others, online data and transaction handling businesses.

These services provided by our Hong Kong subsidiaries are important components of our e-commerce platform and relate directly to online data and transaction handling. Going forward, our Hong Kong subsidiaries will play a greater role in serving the overseas users of our e-commerce platform, including the provision of mobile application services.

As of December 31, 2016, the Company has no further update to disclose in relation to the Qualification Requirement.

Contractual Arrangements

Reasons for the Contractual Arrangements

Because of certain foreign investment restrictions under PRC laws and regulations, it was not viable for the Company to hold Shenzhen Cogobuy directly through equity ownership. The Company, through Cogobuy E-commerce, Shenzhen Cogobuy and Ms. Yao entered into a series of contractual arrangements, under which the Company gained effective control over, and received all the economic benefits generated by the business currently operated by Shenzhen Cogobuy (the "**Contractual Arrangements**"). The Contractual Arrangements allow Shenzhen Cogobuy's financials and results of operations to be consolidated into our financials and as if it was a wholly-owned subsidiary of our Group.

To comply with the relevant PRC laws, our cogobuy.com platform is operated by Shenzhen Cogobuy. Cogobuy E-commerce in turn supervises the business operations of Shenzhen Cogobuy and derives the economic benefits from Shenzhen Cogobuy. Shenzhen Cogobuy holds the requisite PRC permits, licenses and approvals for developing and operating our e-commerce platform, including the ICP license, and is currently in the process of applying for the EDI license. In addition, Shenzhen Cogobuy holds the intellectual property rights, including software copyrights and the domain name, and is in the process of acquiring the trademarks that are important for the operation of our cogobuy.com platform. Shenzhen Cogobuy also performs the value-added telecommunication services of the Company.

Risks relating to the Contractual Arrangements

We believe the following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 39 to 45 of the prospectus of the Company dated July 8, 2014.

- Substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations relating to online commerce and the distribution of Internet content in China. If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, or if these laws or regulations or their interpretations change in the future, we could be subject to severe penalties, including the termination of our website or the forced relinquishment of our interests in our operations.

- We rely on our Contractual Arrangements with our PRC operating entity Shenzhen Cogobuy to provide certain services that are critical to our business, and our Contractual Arrangements may not be effective in providing operational control as equity ownership.

- Ms. Yao, the sole shareholder of Shenzhen Cogobuy, may have conflicts of interest with us, and she may breach her contracts with us or cause such contracts to be amended in a manner contrary to our interests, which may materially and adversely affect our business and financial condition.

- Certain terms of our Contractual Arrangements may not be enforceable under PRC laws.

- We may lose the ability to use and enjoy assets held by Shenzhen Cogobuy that are important to the operation of our business if Shenzhen Cogobuy declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

- The Contractual Arrangements between Cogobuy E-commerce and Shenzhen Cogobuy may be subject to scrutiny by the PRC tax authorities and any finding that we or Shenzhen Cogobuy owe additional taxes could substantially reduce our consolidated net income and the value of our shareholders' investment.

- Our exercise of the option to acquire the equity interests of Shenzhen Cogobuy may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

- If Shenzhen Cogobuy fails to obtain and maintain the requisite assets, licenses and approvals required under the complex regulatory environment for Internet-based businesses in China, our business, financial condition and results of operations may be materially and adversely affected.

Mitigation actions taken by the Company

Our management works closely with Ms. Yao and our external legal counsels and advisors to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements.

The extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restriction

All of the Contractual Arrangements are subject to the restrictions as set out on pages 139 to 144 of the prospectus of the Company dated July 8, 2014.

Contractual Arrangements

During the year ended December 31, 2016, the Group engaged in the following Contractual Arrangements.

1. Master Exclusive Service Agreement

Nature and purpose of the agreement

On March 13, 2014, Shenzhen Cogobuy and Cogobuy E-commerce entered into a master exclusive service agreement (the "**Master Exclusive Service Agreement**"), under which Shenzhen Cogobuy agreed to engage Cogobuy E-commerce as its exclusive provider for the provision of a number of services in exchange for a service fee.

The services to be provided by Cogobuy E-commerce include: (1) technology development and transfer, and technical consulting services; (2) business support services; (3) market consultancy and marketing services; (4) technical support services; (5) selling and authorizing Shenzhen Cogobuy to use software; and/or (6) other services determined from time to time by Cogobuy E-commerce according to the need of business and capacity of Cogobuy E-commerce and its designated affiliates.

Pricing

Under the Master Exclusive Service Agreement, the service fee will be determined by Cogobuy E-commerce at its sole discretion taking into account the working capital requirements of Shenzhen Cogobuy and the following factors relating to the services provided: (i) technical difficulty and complexity of the services; (ii) time spent in providing the services; (iii) contents and commercial value of the services; and (iv) the benchmark price of similar services in the market.

Term of the agreement

The Master Exclusive Service Agreement can be terminated by Cogobuy E-commerce at any time upon 30 days' advance written notice to Shenzhen Cogobuy. The Master Exclusive Service Agreement shall also terminate upon the transfer of all the shares of Shenzhen Cogobuy to Cogobuy E-commerce and/or a third party designated by Cogobuy E-commerce pursuant to the Exclusive Option Agreement.

2. Business Cooperation Agreement

Nature and purpose of the agreement

On March 13, 2014, Shenzhen Cogobuy and its sole shareholder, Ms. Yao, and Cogobuy E-commerce entered into a business cooperation agreement (the "**Business Cooperation Agreement**"). Under the Business Cooperation Agreement, Shenzhen Cogobuy and Ms. Yao jointly agreed that Shenzhen Cogobuy shall not, and Ms. Yao shall cause Shenzhen Cogobuy not to, engage in any transaction which may materially affect its asset, obligation, right or operation without obtaining Cogobuy E-commerce's written consent.

Although the contractual arrangements are silent as to the use of the cogobuy.com domain name by the companies within the Group other than Shenzhen Cogobuy, under the Business Cooperation Agreement, Cogobuy E-Commerce has the right to supervise Shenzhen Cogobuy's daily operation.

According to the Business Cooperation Agreement, the election and appointment of directors, the general manager, the chief financial officer and other senior management members of Shenzhen Cogobuy shall be subject to satisfaction of the qualification requirements put forward by Cogobuy E-commerce and shall require the explicit consent of Cogobuy E-commerce. If Cogobuy E-commerce raises any suggestions over the replacement or dismissal of any such directors or senior management members, Ms. Yao or Shenzhen Cogobuy shall replace or dismiss such persons upon Cogobuy E-commerce's suggestions.

Furthermore, Ms. Yao agreed that, unless required by Cogobuy E-commerce, she shall not make any shareholder's decision to, or otherwise request Shenzhen Cogobuy to, distribute any profits, funds, assets or property to the shareholder of Shenzhen Cogobuy, or to issue any dividends or other distributions with respect to the shares of Shenzhen Cogobuy held by the shareholder.

Term of the agreement

The Business Cooperation Agreement shall remain effective as long as Shenzhen Cogobuy exists, unless Cogobuy E-commerce terminates it upon 30 days' advance written notice or upon the transfer of all the shares held by Ms. Yao to Cogobuy E-commerce and/or a third party designated by Cogobuy E-commerce pursuant to the Exclusive Option Agreement.

3. Exclusive Option Agreement

Nature and purpose of the agreement

On March 13, 2014, Shenzhen Cogobuy and Cogobuy E-commerce entered into an exclusive option agreement (the "**Exclusive Option Agreement**"), under which Cogobuy E-commerce has a right to require Ms. Yao to transfer any and all of her shares in Shenzhen Cogobuy to Cogobuy E-Commerce and/or a third party designated by it, in whole or in part, subject to Cogobuy E-commerce's specific requirements.

Term of the agreement

The Exclusive Option Agreement shall remain effective as long as Shenzhen Cogobuy exists, and cannot be terminated by either Shenzhen Cogobuy or its shareholder. The Exclusive Option Agreement can be terminated (i) by Cogobuy E-commerce at any time upon 30 days' advance written notice to Shenzhen Cogobuy and its shareholder; or (ii) upon the transfer of all the shares held by the shareholder to Cogobuy E-commerce and/or its designee(s).

4. Share Pledge Agreement

Nature and purpose of the agreement

On March 13, 2014, Cogobuy E-commerce entered into a share pledge agreement with Shenzhen Cogobuy and Ms. Yao (the "**Share Pledge Agreement**"). Pursuant to the Share Pledge Agreement, Ms. Yao unconditionally and irrevocably pledged all of her shares in Shenzhen Cogobuy, including any interest or dividend paid for such shares, to Cogobuy E-commerce as security for the performance of the obligations by Shenzhen Cogobuy and Ms. Yao, under the Master Exclusive Service Agreement, the Business Cooperation Agreement, the Exclusive Option Agreement and other agreements to be executed among Shenzhen Cogobuy, Ms. Yao and Cogobuy E-commerce from time to time (collectively the "**Principal Agreements**").

Term of the agreement

The pledge shall remain valid until the Principal Agreements have been fulfilled to the satisfaction of Cogobuy E-commerce or all of the Principal Agreements have expired or been terminated, whichever is the latest.

5. Proxy Agreement and Power of Attorney

Nature and purpose of the agreement

On March 13, 2014, Cogobuy E-commerce entered into an irrevocable proxy agreement and powers of attorney (the "**Proxy Agreement and Power of Attorney**") with Shenzhen Cogobuy and Ms. Yao, pursuant to which Ms. Yao nominated and appointed Cogobuy E-commerce or any natural person designated by Cogobuy E-commerce (including the director of Cogobuy Group) as her attorney-in-fact to exercise on her behalf, and agreed and undertook not to exercise without consensus with such attorney-in-fact, any and all rights that she has in respect of her shares in Shenzhen Cogobuy.

In addition, if any share transfer is contemplated under the Exclusive Option Agreement and the Share Pledge Agreement that Ms. Yao enters into for the benefits of Cogobuy E-commerce or its affiliate, the attorney-in-fact shall have the right to sign the share transfer agreement and other relevant agreements and to perform all shareholder obligations under the Exclusive Option Agreement and the Share Pledge Agreement.

Term of the agreement

The Proxy Agreement and Power of Attorney shall remain effective as long as Shenzhen Cogobuy exists. Ms. Yao shall not have the right to terminate the Proxy Agreement and Power of Attorney or to revoke the appointment of the attorney-in-fact without Cogobuy E-commerce's prior written consent.

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced by the Group with Shenzhen Cogobuy and Ms. Yao during the year ended December 31, 2016. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2016.

For the year ended December 31, 2016, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the structured contracts under the Contractual Arrangements has been removed.

Revenue and Assets subject to the Contractual Arrangements

The revenue, profit for the year and total assets of Shenzhen Cogobuy are set out as follows:

	Year ended December 31, 2016 RMB'000	Year ended December 31, 2015 RMB'000
Revenue	**61,567**	103,466
Profit for the year	**30,386**	23,184

	As at December 31, 2016 RMB'000	As at December 31, 2015 RMB'000
Total assets	**85,386**	84,527

For the year ended December 31, 2016, the revenue and profit for the year of Shenzhen Cogobuy amounted to approximately 0.5% (2015: 1.1%) and 6.0% (2015: 6.3%) of the revenue and profit for the year of the Group respectively.

As at December 31, 2016, the total assets of Shenzhen Cogobuy amounted to approximately 1.0% (2015: 1.7%) of the total assets of the Group.

Waiver from the Hong Kong Stock Exchange and Annual Review

As a substantial Shareholder of our Company and the sole shareholder of Shenzhen Cogobuy, Ms. Yao is therefore the Company's connected person pursuant to Rule 14A.07(1) of the Listing Rules. As a wholly-owned limited liability company by Ms. Yao and by virtue of the Contractual Arrangements, Shenzhen Cogobuy is a connected person of the Company for the purposes of Chapter 14A, and in particular, Rule 14A.07(1), of the Listing Rules. The Group operates its IC and other electronic components business in the PRC through a series of Contractual Arrangements entered into between Cogobuy E-commerce, Shenzhen Cogobuy and Ms. Yao. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions under the Listing Rules. The Hong Kong Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the Contractual Arrangements, including (i) the announcement and independent shareholders' approval requirements, (ii) the requirement of setting an annual cap for the fees payable to Cogobuy E-commerce under the Contractual Arrangements and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Hong Kong Stock Exchange, subject to certain conditions.

Our Directors (including the Independent Non-executive Directors) are of the view that the Contractual Arrangements are fundamental to our Group's legal structure and business operations and have been entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better; and (iii) according to the relevant agreement governing the Contractual Arrangements that are fair and reasonable or to the advantage of the Group and are in the interests of the Shareholders as a whole. Our Directors also believe that our Group's structure whereby the financial results of the consolidated affiliated entities are consolidated into our Group's financial statements as if they were our Group's subsidiaries, and the flow of economic benefits of their business to our Group places our Group in a special position in relation to relevant rules concerning connected transactions under the Listing Rules.

Our Independent Non-executive Directors reviewed the Contractual Arrangements and confirmed that: (i) the transactions carried out during the year ended December 31, 2016 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by Shenzhen Cogobuy has been substantially retained by Cogobuy E-commerce; (ii) no dividends or other distributions have been made by Shenzhen Cogobuy to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) no new contracts have been entered into, renewed or reproduced between our Group and Shenzhen Cogobuy during the year ended December 31, 2016.

Furthermore, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended December 31, 2016 has been provided by the Company to the Hong Kong Stock Exchange.

Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2016.

Customers and Suppliers

Our customers primarily consist of electronics manufacturers based in China. One of our customers accounted for more than 10% of our revenue for the year ended December 31, 2016 (2015: Nil).

As of December 31, 2016, we had a strong network of approximately 11,020 suppliers, including some of the top suppliers in key product categories, such as Intel for cloud/data center, Freescale for automotive components, Broadcom and SanDisk for smart mobile device components and Xilinx for field-programmable gate arrays. For the year ended December 31, 2016, our five largest suppliers in aggregate accounted for 41.48%, of our cost of revenue and our largest supplier accounted for 13.23% of our cost of revenue. None of our Directors, their respective associates, or any Shareholder, to the knowledge of our Directors, owns more than 5% of our issued capital or has any interest in any of our five largest suppliers.

Sufficiency of Public Float

Based on the information available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company maintained the prescribed public float under the Listing Rules.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or under the Company's Articles of Association that require the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

Litigation

As of December 31, 2016, the Company was not involved in any material litigation or arbitration. Nor were the Directors of the Company aware of any material litigation or claims that were pending or threatened against the Company.

Audit Committee

The audit committee has reviewed together with the management and the external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2016.

Auditors

The consolidated financial statements for the year ended December 31, 2016 have been audited by KPMG. A resolution for the reappointment of KPMG as the Company's auditors is to be proposed at the forthcoming annual general meeting of the Company.

Updates on Non-Compliance Matters

Certain lease agreements we entered into with respective PRC landlords had not been registered with the relevant government authorities due to the non-cooperation of the relevant landlords. Under relevant PRC laws and regulations, the relevant governmental authority may ask the parties to a lease to register the lease within a given period, and a fine ranging between RMB1,000 to RMB10,000 may be imposed on the parties to a lease for failing to rectify within the given period. During the period between the Listing Date and December 31, 2016, we had not been ordered by any authorities to register the lease agreements within a given period. In addition, the fine which may potentially be imposed as a result of the failure to register the relevant leases would be immaterial.

Our PRC Legal Advisor is of the view that the above incident is not material to our Group as a whole, and all the PRC governmental authorities referred to are the competent authorities for the matters mentioned.

Our Directors are of the view that this non-compliance incident will not have a material operational or financial impact on us, given that the potential maximum fine for failure to register lease agreements for properties we leased would be immaterial.

The Company undertakes that it will rectify all non-compliances in a timely manner and will update the progress of the rectification of the non-compliance incidents in the Company's subsequent interim and annual reports.

On behalf of the Board

Kang Jingwei, Jeffrey
Chairman

Hong Kong, March 21, 2017

Corporate Governance Practices

The Board of Directors of the Company has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential to provide a framework for the Company to safeguard the interests of Shareholders, enhance corporate value and accountability, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules.

The Board is of the view that throughout the year ended December 31, 2016, the Company has complied with all of the code provisions as set out in the CG Code, save and except for code provision A.2.1, which states that the roles of chairman and chief executive should be separate and should not be performed by the same individual, details of which is set out below.

Chairman and Chief Executive Officer

Deviation from code provision A.2.1:

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

The Company does not have a separate Chairman and Chief Executive Officer and Mr. Kang Jingwei, Jeffrey currently performs these two roles. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same individual ensures consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of Chairman of the Board and the Chief Executive Officer of the Company at a time when it is appropriate by taking into account circumstances of the Group as a whole.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors (the "**Securities Dealing Code**").

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Securities Dealing Code throughout the year ended December 31, 2016.

The Securities Dealing Code is also adopted by the Company to regulate all securities transactions by relevant employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Securities Dealing Code by the employees was noted by the Company.

Board of Directors

The Board of the Company during the year ended December 31, 2016 and up to the date of this annual report is:

Executive Directors:

Mr. Kang Jingwei, Jeffrey *(Chief Executive Officer and Chairman of the Board)*
Mr. Wu Lun Cheung Allen *(Chief Financial Officer and Company Secretary)*
Ms. Ni Hong, Hope *(Chief Investment Officer)*

Non-executive Director:

Mr. Guo Jiang

Independent Non-executive Directors:

Mr. Zhong Xiaolin, Forrest
Mr. Ye Xin
Mr. Yan Andrew Y

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 12 to 16 of this annual report.

None of the members of the Board is related to one another.

Independent Non-executive Directors

Throughout the year ended December 31, 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

Non-executive Director and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment, and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

According to the requirements under the Articles of Association, at each annual general meeting one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including Non-executive Director and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the Company Secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed director has received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

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. All Directors are required to provide with their training records and to confirm their respective records on an annual basis.

During the year ended December 31, 2016, the Directors of the Company have attended seminars and training sessions arranged by professional/financial institutions, and have read relevant materials relating to regulatory updates. The relevant details are set out below:

		Attending seminars and training sessions relevant to the following topics:		
Name of Directors	**Reading Regulatory updates**	**Corporate laws, compliance laws and regulations**	**Economy/ Financial markets and products**	**Risk management and internal control**
Kang Jingwei, Jeffrey	√			√
Wu Lun Cheung Allen	√	√	√	√
Ni Hong, Hope	√			
Guo Jiang	√			
Zhong Xiaolin, Forrest	√			
Ye Xin	√			
Yan Andrew Y	√			

Board Committees

The Board has established three committees, namely, the audit committee, remuneration committee and nomination committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Hong Kong Stock Exchange's website and are available to Shareholders upon request.

All members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit Committee

The main duties of the audit committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, effectiveness of the internal audit function, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended December 31, 2016, the audit committee held three meetings to review interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, re-appointment of external auditors and relevant scope of works, connected transactions, 2017 full year audit plan, financial control and whistleblowing policy.

The audit committee also met the external auditors twice without the presence of the Executive Directors for the year ended December 31, 2016.

Remuneration Committee

The primary functions of the remuneration committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year ended December 31, 2016, the remuneration committee met once to review and make recommendations to the Board on the remuneration policy and structure of the Company, and the remuneration packages of all the Directors and senior management and other related matters.

Details of the remuneration of the senior management by band are set out in note 8 in the "Notes to the Financial Statements" on page 103 of this annual report.

Nomination Committee

The principal duties of the nomination committee include reviewing the structure, size and composition of the Board, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the nomination committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The nomination committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the nomination committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year ended December 31, 2016, the nomination committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors. The nomination committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Board Diversity Policy (the "**Policy**") was adopted by the Company pursuant to the Board meeting held on June 27, 2014. The Policy aims to set out the approach to diversity on the Board of the Company and achieve a sustainable and balanced development.

The nomination committee will review the Policy and discuss the measurable objectives for achieving diversity of the Board and recommend them to the Board for adoption, as appropriate, to ensure the effectiveness of this Policy.

All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and industry and regional experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Corporate Governance Functions

The Board recognizes that corporate governance should be the collective responsibility of Directors.

During the year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Committee Members

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended December 31, 2016 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**General Meetings**
Kang Jingwei, Jeffrey	5/5	n/a	n/a	n/a	2/2
Wu Lun Cheung Allen	5/5	n/a	n/a	n/a	2/2
Ni Hong, Hope	5/5	n/a	n/a	n/a	2/2
Guo Jiang	4/5	n/a	n/a	n/a	2/2
Zhong Xiaolin, Forrest	4/5	1/1	1/1	3/3	1/2
Yan Andrew Y	5/5	1/1	1/1	3/3	2/2
Ye Xin	5/5	1/1	1/1	3/3	2/2

Apart from regular Board meetings, the Chairman also held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2016.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 55 to 66 of this annual report.

Risk Management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the audit committee.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The audit committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted risk management procedures and guidelines with defined authority for implementation by key and selected operational and financial processes, including revenue, procurement, inventory, and financial reporting.

The Company's risk management and internal control systems have been developed with a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

All departments continuously assess and identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Working closely with management and department heads, the internal audit department develops and refines policies and procedures for each applicable operational and financial process, which may include approvals, authorisation, verification, recommendations, performance reviews, security, and/or segregation of duties as appropriate.

Each department conducts regular evaluations to confirm that control policies are properly complied with.

The Management, working closely with department heads and the internal audit department, assessed the likelihood of risk occurrence, devised risk management plans, monitored the risk management progress, and reported to the audit committee and the Board on key issues and the effectiveness of the systems.

The Management has provided a confirmation to the Board on the effectiveness of the risk management and internal control systems for the year ended December 31, 2016.

The Company's internal audit department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the audit committee.

The Board, as supported by the audit committee as well as the management report and internal audit findings, has conducted a review on the risk management and internal control systems of the Company and its subsidiaries for the year ended December 31, 2016. Such review covered the areas of financial, operational, compliance control and risk management of the Group. The Board considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing Policy

The Company is committed to achieving and maintaining the highest possible standards of openness, probity and accountability. A whistleblowing policy is in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The identity of the whistleblower will be treated with the strictest confidence.

Information Disclosure Policy

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Auditors' Remuneration

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2016 is disclosed in note 5 of the "Notes to the Financial Statements" on page 97 of this annual report. There were no non-audit services provided during the year ended December 31, 2016.

Company Secretary

The Company Secretary supports the Board by ensuring board procedures are followed and board proceedings are efficiently and effectively conducted. The incumbent is also responsible for ensuring that the Board is fully apprised of all applicable law, rules, regulations and corporate governance developments.

According to Rule 3.29 of the Listing Rules, the Company Secretary has confirmed that he had taken no less than 15 hours of professional training to update his skills and knowledge for the year ended December 31, 2016.

Shareholders' Rights

To safeguard Shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each general meeting.

Procedures for Shareholders to Put Forward Enquiries to the Board

To put forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company, for the attention of the Board of Directors by mail to 9th Floor Skyworth Building, Tower C, High-Tech Industrial Park, Nanshan, Shenzhen 518057, PRC or by email to ir@cogobuy.com. The Company will not normally deal with verbal or anonymous enquiries.

Procedures for Shareholders to propose a person for election as a Director

Shareholders may propose a person for election as Director, the procedures for which are available in the section of "Corporate Governance" under the column of "Investor Relations" on the Company's website (http://www.cogobuy.com).

Procedures for Shareholders to Convene an Extraordinary General Meeting

Article 58 of the Company's Articles of Association provides that any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails 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 Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Shareholders to Put Forward Proposals at General Meeting

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Company to be discussed at general meeting. Shareholders who wish to put forward a proposal should convene an extraordinary general meeting by the procedures set out in "Procedures for Shareholders to Convene an Extraordinary General Meeting".

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	9th Floor, Skyworth Building, Tower C, High-Tech Industrial Park, Nanshan, Shenzhen 518057, PRC (For the attention of the Chief Investor Relations Officer)
Fax:	(86) 755 2674 4090
Email:	ir@cogobuy.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Hong Kong Stock Exchange's website.

About This Report

The Board recognises the importance of strong environmental, social and governance (the "**ESG**") performance in meeting the changing expectations of stakeholders and enhancing the performance of the Group. The Board has taken overall responsibility for the Company's ESG strategy and reporting and has a strong commitment to environmental protection with the mission to promote the environmental culture among our staff to maintain a sustainable development for the Company.

With the aim to strengthen ESG disclosure requirements, the Company has taken the initiatives to formulate policies, measure relevant data, monitor progress and report to investors and other stakeholders on the work in the ESG area, according to the existing ESG Guide (Appendix 27 to Listing Rules) of the Hong Kong Stock Exchange and the other related Listing Rules.

This ESG Report describes the progress made by the Company on our environmental journey during 2016. The reporting scope covers the Head Office located in Shenzhen.

Environmental

Emissions

As the Company operates a transaction-based e-commerce platform for integrated circuits ("**IC**") and other electronic components, and is dedicated to serving the electronics manufacturing industry in China, its emissions, such as air pollutants arising from the fuel usage of company cars and air travel, are insignificant compared to companies in other industries such as manufacturing and mining. Non-hazardous wastes (commercial wastes and the disposal of computer devices and office equipment) produced by the Company are also minimal.

During the year 2016 (the "**Year**"), indirect emissions from the office were mainly generated from the consumption of purchased electricity. The Company has been persistent in conducting business in an environmentally responsible manner and has taken measures to reduce the possible impact on the environment, i.e., travel, water, energy and paper reductions etc.

Use of Resources

The Company has always placed great emphasis on energy and resources conservation. To achieve this, the Company continually applies efficient consumption strategy to improve energy saving and reduce energy consumption.

Resources used in the office are mainly printing paper, packing materials, electricity, water, fuel gas for land and air travel. Staff members are encouraged to use video/telephone conferencing system thus reducing local and overseas business travelling in order to avoid indirect air emissions.

The Company has implemented energy and water saving practices, resulting in low consumption levels. Water-efficient sensor taps have been installed to avoid unnecessary water wastage. The workplace temperature has been maintained at a comfortable level to encourage energy conservation and to reduce emissions.

Environment and Natural Resources

The Company is principally engaged in operating an e-commerce platform for sales of IC and other electronic components and is engaged in providing supply chain financing services, thus its operations will not bring much impact to the environment and will not consume much natural resources.

The Company endeavors to comply with the applicable environmental laws and regulations and has adopted effective measures to reduce wastage, such as exchange unsold inventory for new products, adopt electronics waste disposal procedures etc. Our employees are fully aware that it is important for the operation of the Company to minimise the impact on the environment and natural resources.

Social

Employment

The Company values its employees and ensures they are reasonably remunerated. Our staff handbook deals with code of conduct, equal opportunity, termination of services, rewards and punishment, and leave entitlement, etc.

Employees at all levels are expected to conduct themselves with integrity, impartiality and honesty.

Employees are recruited, remunerated and promoted on the basis of their merit, qualifications, competence, suitability, and contribution to the Company. There is no restriction on age or gender, and there is no discrimination.

Employees work 8 hours a day from Monday to Friday, 40 hours a week. Overtime compensation and paid leaves entitlement are provided in accordance with relevant labour laws and regulations. Social insurance and commercial insurance are provided to employees to cover daily medical treatment, industrial injury, unemployment, pension, medical accident and accident.

The Company has also implemented an annual self-appraisal program to provide incentive and motivation to staff to attain periodic goals. The Company has adopted a RSU Scheme to reward the fidelity of employees, and continues to review and update policies on remuneration and benefits, training, occupational health and safety. Promotion and internal transfer will be provided to those who have shown their potential competency for the next level when remuneration packages are being reviewed on an annual basis.

During the Year, there was no non-compliance or breach of legislation related to applicable employment laws and regulations.

Health and Safety

The Company is committed to providing and maintaining a safe and healthy environment for all employees. The staff handbook has stipulated that all employees should shut down all electronic devices and office equipment after office hour, and any injury incurred during work should be reported to the Human Resources Department. Smoking is prohibited in the office area.

As staff members are mainly office-based, performing online trading related business and providing customer support services, safety issues are not as pertinent to the job nature.

The Company has complied with relevant laws and regulations on health and safety and there were no recorded work related injuries or fatalities in the Year.

Development and Training

The Company places importance on continuing development of professional knowledge and skills, and provision of relevant training to employees.

The Company has established policies on staff development and training. The Company provided both internal and external training opportunities for various levels of employees, including management, sales and marketing, operations and back office supporting staff. Selected training sessions such as domestic and overseas inspection tours, mid-career study and job related seminars, etc. were conducted by professional training organizations, colleges or consulting companies.

Labour Standards

The Company complies with all applicable labour laws and regulations on employment in the PRC and other countries in which the Company or its subsidiaries operate.

The Company considers child and forced labour unacceptable and ought to be prevented. The Company has instituted a comprehensive screening and recruiting process to prohibit the use of child labour.

Employee work schedules are set up fairly to keep within standard working hours. All employees are provided with appropriate leave entitlements including annual leave, sick leave, marriage leave, maternity leave, paternity leave and compassionate leave etc.

Supply Chain Management

The Company has maintained good practices to build up good relationships with its suppliers. The procurement of equipment, products and services is undertaken through an open and fair competition to ensure the Company engages a product/service provider globally.

The Company is keen on selecting suppliers that are socially responsible and operate in an environmentally sustainable manner. Currently, most of our suppliers are world-leading product/service providers whose practices are in alignment with their social responsibilities and the long-term sustainability of the environment. They are committed to conducting their businesses in an ethical manner while maintaining high standards in the conservation of environmental resources and the well-being of their employees.

Product Responsibility

As the Company operates in the transaction-based e-commerce platform for IC and other electronic components, product responsibility lies with the suppliers. While the Company is not directly responsible for the products it provides, all signed contracts require its suppliers to exchange products that are below agreed quality. Suppliers are also required to affix labels on all packages to clearly state that the products comply with applicable worldwide environmental regulations and requirements standards such as RoHS, PB (Plumbum/Lead) free, and/or H/F (Halogen Free) standards, etc.

The Company also has standard procedures for handling complaints. The customer service team takes immediate action on receipt of any complaint, resolving or following up until resolution.

The Company is committed to complying with relevant laws and regulations on customer data protection and privacy. Any unauthorised copying, dissemination or disclosure of confidential information, including identities and transaction records of customers, are strictly prohibited.

Anti-corruption

The Company is committed to adhering to the highest ethical standards and maintaining a corporate culture of integrity and justice for preventing, detecting and reporting all types of fraud, including corruption. Employees at all levels are expected to conduct themselves with integrity, impartiality and honesty.

Our whistle-blowing policy allows staff to discreetly report any misconduct or dishonest activities, such as suspected corruption, fraud and other forms of criminality, etc. to the Company's audit committee or the company secretary by email.

All entertainment, sales and marketing related travel and expenses are subject to the Group's expense approval procedure and management will determine and approve each expense request in a diligent manner. The Company's disclosure policy requires its employees to report gifts, entertainment and travel acceptance while conducting business on behalf of the Group and manage such gifts and entertainment provided by business associates according to the guideline. The Staff Handbook stipulates that if an employee receives money, gifts or rebates as bribes, the Company has the right to terminate his/her employment contract and reserves the right to take further legal action.

There was no legal case regarding corrupt practices nor any case of corruption found or reported by the Company in the Year.

Community Investment

The Company encourages employees to contribute their time and efforts in participating in various local community activities and events.

From time to time, the Company organises used computers donations to selected schools to help disadvantaged children in remote areas of China. The Company has also established an internal charity fund. During the Year, the fund provided financial aid to support those employees and their immediate families in need.

In the Year, the Company participated in charity events organised by Oxfam and sponsored the 2016 GCTI Global Camp[1].

[1] 2016 GCTI Global Camp is a part of the Grand Challenge Tech+ Innovator (GCTI) program of Sungkyunkwan University Hub Center in Korea. The GCTI program is a small-scale, experimental program for nurturing students to solve the Grand Challenges for Engineering (GCE) problems defined by US National Academy of Engineering (NAE) in 2008, which are closely related to global issues about energy, environment, health, safety, and sustainability.

Independent auditor's report to the shareholders of Cogobuy Group
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Cogobuy Group ("the Company") and its subsidiaries ("the Group") set out on pages 67 to 149, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Revenue recognition from sales of goods

Refer to note 3 to the consolidated financial statements and the accounting policies on pages 90 to 92.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue is principally generated through the Group's online marketplaces, cogobuy.com and ingdan.com, which are online-to-offline platforms where customers place orders for the purchase of goods from the Group or use them as the platform for trading with other suppliers ("marketplace services") or obtain supply chain financing services from the Group. The Group's revenue for the reporting period amounted to RMB12,933 million of which RMB12,829 million, RMB85 million and RMB19 million, was generated from the sales of goods, marketplace services and supply chain financing services respectively. The Group has a large customer base and processes a large volume of sales transactions each year. Revenue from sales of goods is recognised when goods are delivered to the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership have been transferred to the customers.	Our audit procedures to assess the recognition of revenue from sales of goods included the following: • assessing the design, implementation and operating effectiveness of the Group's key internal controls over the accuracy and timing of revenue recognition; • inspecting sales contracts, on a sample basis, to assess whether management recognised the related revenue in accordance with the Group's revenue recognition accounting policies, with reference to the requirements of the prevailing accounting standards; • comparing a sample of sales transactions recorded during the year with underlying purchase orders, goods delivery notes signed by customers as evidence of acceptance of the goods, shipping documents and invoices and assessing the business substance of the underlying transactions and whether the related revenue had been recognised in accordance with the Group's revenue recognition accounting policies;

Revenue recognition from sales of goods (Continued)

Refer to note 3 to the consolidated financial statements and the accounting policies on pages 90 to 92.

The Key Audit Matter	How the matter was addressed in our audit
There is an inherent risk that revenue from sales of goods may be inappropriately recognised when the conditions for revenue recognition have not been met. We identified revenue recognition from sales of goods as a key audit matter because revenue is a key performance indicator of the Group and because there is a risk that revenue recognition could be manipulated due to internal incentives or external pressures to meet certain financial targets or expectations and also because the large volume of transactions processed increases the risk of error in recognising revenue.	Our audit procedures to assess the recognition of revenue from sales of goods included the following: • comparing a sample of sales transactions recorded just before and after the reporting date with underlying purchase orders, goods delivery notes signed by customers as evidence of acceptance of the goods and shipping documents to assess whether the related revenue was recorded in the appropriate financial period; and • scrutinising all manual journal entries relating to revenue which were raised during the year and comparing details of those which were considered to be material or met other specified risked-based criteria with relevant underlying documentation.

Assessing potential impairment of goodwill and other intangible assets

Refer to notes 12 and 13 to the consolidated financial statements and the accounting policies on pages 83 to 86.

The Key Audit Matter	How the matter was addressed in our audit
Goodwill and intangible assets have arisen from the acquisition of subsidiaries, the principal activities of which are the trading of integrated circuits and other electronic components. The total carrying amount of goodwill and other intangible assets amounted to RMB253 million at 31 December 2016 of which RMB6 million was generated from acquisition completed in 2016. Management performs impairment testing of goodwill annually. For other intangible assets, impairment testing is performed when indicators of potential impairment are identified. In performing impairment testing of goodwill and other intangible assets, management considers that entire operations of the Group represent one separately identifiable cash generating unit. Management performs impairment testing by using the value in use method and preparing a discounted cash flow forecast, which involves the exercise of significant management judgement and estimation, particularly in relation to forecasting revenue and determining the discount rate applied to estimate the net present value of the future operating cash flows.	Our audit procedures to assess potential impairment of goodwill and other intangible assets included the following: • evaluating management's assessment of indicators of potential impairment of intangible assets other than goodwill; • assessing the level at which impairment tests were performed by management with reference to the requirements of the prevailing accounting standards; • utilising our internal valuation specialists to assist us in assessing of the valuation methodology adopted by management, with reference to the requirements of the prevailing accounting standards, and the discount rate applied by recalculating the discount rate using externally derived data; • evaluating management's impairment assessment by comparing the key assumptions adopted, which included the sales growth rate and cost inflation, in the discounted cash flow forecast with externally derived data as well as our knowledge of the industry in which the Group operates; • assessing the Group's procedures around the preparation of the financial budget upon which the discounted cash flow forecast is based and comparing financial data in the discounted cash flow forecast with the financial budget approved by the directors;

Assessing potential impairment of goodwill and other intangible assets (Continued)

Refer to notes 12 and 13 to the consolidated financial statements and the accounting policies on pages 83 to 86.

The Key Audit Matter	How the matter was addressed in our audit
We identified assessing potential impairment of goodwill and other intangible assets as a key audit matter because goodwill and other intangible assets represent a significant portion of consideration paid to acquire the subsidiaries and because of the significant management judgement exercised in determining the inputs to the impairment assessment model which are inherently uncertain and could be subject to management bias.	Our audit procedures to assess potential impairment of goodwill and other intangible assets included the following: • considering sensitivity analyses of the key assumptions adopted in the discounted cash flow forecast, including the sales growth rate, cost inflation and the discount rate applied, and evaluating the impact of changes in the key assumptions to the conclusion reached in the impairment assessment and considering whether there were any indicators of management bias in the selection of these assumptions; • comparing the discounted cash flow forecast prepared by management for the prior year with the actual results for the current year, discussing with management any significant variations and considering the impact on the current year's discounted cash flow forecast; and • assessing whether the disclosures in the consolidated financial statements appropriately reflected the risks inherent in the impairment assessment of goodwill and other intangible assets with reference to the requirements of the prevailing accounting standards.

Valuation of inventories

Refer to note 17 to the consolidated financial statements and the accounting policies on page 86.

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's inventories, which are stated at the lower of cost and net realisable value, totalled RMB1,395 million at 31 December 2016. Inventories comprise integrated circuits and other electronic components that are used by customers to manufacture electronic devices and machinery. Management reviews the movement of inventories during the year to identify slow-moving and obsolete items. When such items are identified, management exercises judgement to assess their net realisable values, by making comparisons with market prices, and to write down the carrying amounts of such inventories to their net realisable values. We identified valuation of inventories as a key audit matter because the Group operates in a fast evolving industry and, therefore, inventories are subject to the risk of obsolescence due to technological changes and the development of new end products and because management exercises significant judgement in identifying inventories that are slow-moving or obsolete and in determining the provisions for inventories.	Our audit procedures to assess the valuation of inventories included the following: • assessing the Group's accounting policies for determining provisions for inventories with reference to the requirements of the prevailing accounting standards; • assessing the design, implementation and operating effectiveness of key internal controls over the monitoring of movements of inventories and the identification of slow-moving or obsolete inventories; • comparing the carrying value of a sample of inventory items as at 31 December 2016 with the agreed sales prices as set out in sales orders around the reporting period date; • utilising our internal information technology specialists to assess the design, implementation and operating effectiveness of the computer application control over the generation of the slow-moving inventories report used for calculating provisions for inventories; • attending inventory counts at the end of the reporting period to identify slow-moving and obsolete inventories;

Valuation of inventories (Continued)

Refer to note 17 to the consolidated financial statements and the accounting policies on page 86.

The Key Audit Matter	How the matter was addressed in our audit
	Our audit procedures to assess the valuation of inventories included the following: • evaluating the provisions for inventories at the reporting date by comparing the carrying amounts of inventories to selling prices or market prices subsequent to the end of the reporting period on a sample basis; and • considering the historical accuracy of provisions for inventories made by management at the end of the previous financial year by examining the actual inventory loss during the current year and assessing whether there were indications of management bias in making provisions for inventories.

Impairment of trade receivables

Refer to note 18 to the consolidated financial statements and the accounting policies on pages 83 to 84 and 86.

The Key Audit Matter	How the matter was addressed in our audit
Trade receivables, which totalled RMB2,028 million at 31 December 2016, are generated from the sale of integrated circuits and other electronic components. The Group has a large customer base, ranging from top tier manufacturers to small and medium-sized enterprises operating in the electronics industry. Individual provisions are provided where customers may be in financial difficulty based on management's assessment of the credit standing of customers and the likelihood of default. Management also applies provision ratios derived from historical loss experience to trade receivables with similar past due status. The Group's credit risk policy requires full impairment to be made for trade receivables that are over 180 days past due. Management exercises judgement in assessing whether the provision ratios are appropriate for the current year.	Our audit procedures assess impairment of trade receivables included the following: • assessing the design, implementation and operating effectiveness of the key internal controls over management's tracking of actual credit losses and the monitoring of the past due status of trade receivables; • considering the Group's credit risk policy and challenging management's assessment of the credit standing of the customers and the likelihood of default with reference to the customers' repayment histories and their financial condition; • assessing management's provision for past due trade receivables by inspecting collections subsequent to the reporting period, repayment histories, the financial condition of debtors, correspondence with debtors and repayment arrangements agreed with debtors; • recalculating the provisions for impairment of trade receivables at the end of the reporting period based on the trade receivables ageing report and provision ratios incorporated in the Group's bad debt provision policy;

Impairment of trade receivables (continued)

Refer to note 18 to the consolidated financial statements and the accounting policies on page 83 to 84 and 86.

The Key Audit Matter	How the matter was addressed in our audit
We identified impairment of trade receivables as a key audit matter because the Group's customer base includes a large number of small and medium-sized enterprises the financial position of which is difficult to assess and monitor and because management exercises significant judgement in determining provisions for impairment.	Our audit procedures assess impairment of trade receivables included the following: • utilising our internal information technology specialists to assess the design, implementation and operating effectiveness of the computer application control over the generation of the trade receivables ageing report; • assessing the collection of trade receivables after the end of the reporting period by inspecting bank transfer documents and other relevant underlying documentation on a sample basis; and • evaluating the historical accuracy of provisions for impairment of trade receivables made by management at the end of the previous financial year by examining the actual losses recorded during the current year and assessing whether there was an indication of management bias when making provisions for impairment of trade receivables.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained Management Discussion and Analysis prior to the date of this auditor's report and expect the remaining other information to be made available to us after that date.

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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Chung Chi, Alan.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Revenue	3	12,932,794	9,453,389
Cost of revenue		(11,870,302)	(8,688,638)
Gross profit		1,062,492	764,751
Other income	4	28,329	25,856
Selling and distribution expenses		(218,053)	(151,597)
Research and development expenses		(62,613)	(55,874)
Administrative and other operating expenses		(160,900)	(129,697)
Profit from operations		649,255	453,439
Finance costs	5(a)	(55,984)	(30,070)
Share of profits of an associate		2,014	—
Profit before taxation	5	595,285	423,369
Income tax	6(a)	(85,678)	(56,888)
Profit for the year		509,607	366,481
Attributable to:			
Equity shareholders of the Company		478,799	342,875
Non-controlling interests		30,808	23,606
Profit for the year		509,607	366,481

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended December 31, 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Profit for the year		**509,607**	366,481
Other comprehensive income for the year (after tax and reclassification adjustments)	9		
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation of financial statements of entities with functional currency other than Renminbi		**134,757**	34,680
– Available-for-sale investments: net movement in the fair value reserve		**4,904**	—
Other comprehensive income for the year		**139,661**	34,680
Total comprehensive income for the year		**649,268**	401,161
Attributable to:			
Equity shareholders of the Company		**616,660**	377,450
Non-controlling interests		**32,608**	23,711
Total comprehensive income for the year		**649,268**	401,161
Earnings per share	10		
Basic (RMB)		**0.347**	0.257
Diluted (RMB)		**0.345**	0.253

The notes on pages 75 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016
(Expressed in Renminbi)

	Note	December 31, 2016 RMB'000	December 31, 2015 RMB'000
Non-current assets			
Property, plant and equipment	11	**14,189**	5,653
Intangible assets	12	**51,286**	63,508
Goodwill	13	**201,659**	184,260
Available-for-sale investments	14	**107,426**	114,330
Interest in an associate and a joint venture	16	**16,446**	—
Other non-current assets		**2,247**	670
		393,253	368,421
Current assets			
Inventories	17	**1,394,835**	609,172
Trade and other receivables	18	**2,095,591**	1,430,191
Loans to third parties	19	**794,596**	276,754
Available-for-sale investments	14	**471,212**	—
Short term deposits		**12,649**	11,000
Pledged deposits	22	**1,652,434**	1,246,977
Cash and cash equivalents	20	**1,825,543**	1,024,269
		8,246,860	4,598,363
Current liabilities			
Trade and other payables	21	**1,027,076**	749,574
Bank loans	22	**3,797,382**	2,125,876
Amount due to a related party	23	**38,985**	35,687
Current taxation	26(a)	**81,776**	43,334
		4,945,219	2,954,471

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As of December 31, 2016
(Expressed in Renminbi)

	Note	December 31, 2016 RMB'000	December 31, 2015 RMB'000
Net current assets		**3,301,641**	1,643,892
Total assets less current liabilities		**3,694,894**	2,012,313
Non-current liabilities			
Deferred tax liabilities	26(b)	**8,959**	10,762
NET ASSETS		**3,685,935**	2,001,551
CAPITAL AND RESERVES	27		
Share capital		**1**	1
Reserves		**3,600,493**	1,921,199
Total equity attributable to equity shareholders of the Company		**3,600,494**	1,921,200
Non-controlling interests		**85,441**	80,351
TOTAL EQUITY		**3,685,935**	2,001,551

Approved and authorized for issue by the board of directors on March 21, 2017.

KANG Jingwei, Jeffrey
Director

WU Lun Cheung Allen
Director

The notes on pages 75 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company											
	Note	Share capital (Note 27(c)) RMB'000	Share premium (Note 27(d)) RMB'000	Capital reserve (Note 27(e)) RMB'000	Share-based compensation reserve (Note 27(f)) RMB'000	Other reserve (Note 27(g)) RMB'000	Shares held for the Restricted Share Unit Scheme ("RSU Scheme") (Note 27(h)) RMB'000	Exchange reserve (Note 27(i)) RMB'000	Statutory reserves (Note 27(j)) RMB'000	Retained Profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As of January 1, 2015		1	1,064,067	18,923	10,814	186,196	–	17,313	1,851	303,985	1,603,150	21,807	1,624,957
Changes in equity for 2015:													
Profit for the year		–	–	–	–	–	–	–	–	342,875	342,875	23,606	366,481
Other comprehensive income		–	–	–	–	–	–	34,575	–	–	34,575	105	34,680
Total comprehensive income		–	–	–	–	–	–	34,575	–	342,875	377,450	23,711	401,161
Arising from business combination		–	–	–	–	–	–	–	–	–	–	28,583	28,583
Contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	6,250	6,250
Equity-settled share-based compensation		–	–	–	32,045	–	–	–	–	–	32,045	–	32,045
Issue of shares under the RSU Scheme	27(c)(ii)	–	18,411	–	(18,411)	–	–	–	–	–	–	–	–
Purchase of own shares	27(c)(iii)	–	(82,600)	–	–	–	–	–	–	–	(82,600)	–	(82,600)
Purchase of shares held for RSU Scheme		–	–	–	–	–	(8,845)	–	–	–	(8,845)	–	(8,845)
Appropriations		–	–	–	–	–	–	–	1,466	(1,466)	–	–	–
As of December 31, 2015		1	999,878	18,923	24,448	186,196	(8,845)	51,888	3,317	645,394	1,921,200	80,351	2,001,551

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended December 31, 2016
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company												
	Note	Share capital (Note 27(c)) RMB'000	Share premium (Note 27(d)) RMB'000	Capital reserve (Note 27(e)) RMB'000	Share-based compensation reserve (Note 27(f)) RMB'000	Other reserve (Note 27(g)) RMB'000	Shares held for the Restricted Share Unit Scheme ("RSU Scheme") (Note 27(h)) RMB'000	Exchange reserve (Note 27(i)) RMB'000	Statutory reserves (Note 27(j)) RMB'000	Fair value reserve (Note 27(k)) RMB'000	Retained Profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As of January 1, 2016		1	999,878	18,923	24,448	186,196	(8,845)	51,888	3,317	–	645,394	1,921,200	80,351	2,001,551
Changes in equity for 2016:														
Profit for the year		–	–	–	–	–	–	–	–	–	478,799	478,799	30,808	509,607
Other comprehensive income		–	–	–	–	–	–	132,957	–	4,904	–	137,861	1,800	139,661
Total comprehensive income		–	–	–	–	–	–	132,957	–	4,904	478,799	616,660	32,608	649,268
Issue of new shares	27(c)(i)	–	1,719,913	–	–	–	–	–	–	–	–	1,719,913	–	1,719,913
Equity-settled share-based compensation		–	–	–	36,753	–	–	–	–	–	–	36,753	–	36,753
Issue of shares under the RSU Scheme	27(c)(ii)	–	37,416	–	(37,416)	–	–	–	–	–	–	–	–	–
Purchase of own shares	27(c)(iv)	–	(381,674)	–	–	–	–	–	–	–	–	(381,674)	–	(381,674)
Purchase of shares held for RSU Scheme	27(c)(v)	–	–	–	–	–	(99,876)	–	–	–	–	(99,876)	–	(99,876)
Purchase of non-controlling interests		–	–	–	–	(212,482)	–	–	–	–	–	(212,482)	(27,518)	(240,000)
Appropriations		–	–	–	–	–	–	–	1,285	–	(1,285)	–	–	–
As of December 31, 2016		1	2,375,533	18,923	23,785	(26,286)	(108,721)	184,845	4,602	4,904	1,122,908	3,600,494	85,441	3,685,935

The notes on pages 75 to 149 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		595,285	423,369
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	2,186	1,144
Amortization of intangible assets	5(c)	13,335	13,766
Finance costs	5(a)	55,984	30,070
Interest income	4	(21,664)	(24,813)
Impairment loss on trade receivables	5(c)	32,040	31,880
Reclassification from equity on disposal of available-for-sale investments	4	—	(23,630)
Reclassification from equity on impairment of available-for-sale investments	4	—	23,917
Impairment loss of available-for-sale investments	4	37,144	—
Net realized gains on trading securities	4	(39,509)	—
Dividend income	4	(2,181)	—
Share of profits of an associate		(2,014)	—
Write down of inventories	17(b)	48,736	7,706
Equity-settled share-based compensation expenses	25	36,753	32,045
		756,095	515,454
Changes in working capital, net of effect of acquisitions			
Increase in inventories		(765,450)	(91,880)
Increase in trade and other receivables		(674,920)	(674,736)
Increase in loans to third parties		(522,992)	(68,125)
Increase in trade and other payables		262,631	169,110
Increase in bank loans used for supply chain financing business		421,413	538,268
Cash (used in)/generated from operations		(523,223)	388,091
Income tax paid		(46,302)	(38,420)
Net cash (used in)/generated from operating activities		(569,525)	349,671

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended December 31, 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Increase in pledged deposits		(324,877)	(483,273)
Payment for the purchase of property, plant and equipment		(11,202)	(5,153)
Payment for the acquisition of available-for-sale investments		(490,103)	(177,418)
Proceeds from disposal of available-for-sale investments		—	61,862
Cash outflows from acquisition of subsidiaries (net of cash and cash equivalents acquired)		(2,865)	(5,681)
Interest received		20,015	24,813
Dividend received		2,182	—
Investment in an associate and a joint adventure		(13,592)	—
Payment for acquisition of trading securities		(257,267)	—
Proceeds from disposal of trading securities		296,776	—
Net cash used in investing activities		(780,933)	(584,850)
Financing activities			
Net proceed from issue of new shares	27(c)(i)	1,719,913	—
Net proceeds from bank loans		1,098,213	108,676
Payment for purchase of non-controlling interests		(240,000)	—
Contribution from non-controlling interests		—	6,250
Increase in amount due to non-controlling interests		—	18,158
Payment for purchase of issued ordinary shares held for RSU Scheme	27(c)(v)	(99,876)	(8,845)
Payment for repurchase of issued ordinary shares	27(c)(iv)	(381,674)	(88,825)
Interest and factoring costs paid		(55,984)	(30,070)
Net cash generated from financing activities		2,040,592	5,344
Net increase/(decrease) in cash and cash equivalents		690,134	(229,835)
Cash and cash equivalents at the beginning of the year		1,024,269	1,222,700
Effect of foreign exchange rate changes		111,140	31,404
Cash and cash equivalents at the end of the year	20	1,825,543	1,024,269

The notes on pages 75 to 149 form part of these financial statements.

1 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by Cogobuy Group (the "Company") and its subsidiaries (the "Group") are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2016 comprise the Company and its subsidiaries and the Group's interest in an associate and a joint venture.

The Company was incorporated in the Cayman Islands on February 1, 2012 as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the sales of integrated circuits ("IC") and other electronic components in the People's Republic of China ("PRC"). The Group also operates two e-commerce platforms for the sales of IC and other electronic components and is also engaged in providing supply chain financing. The shares of the Company have been listed on the Main Board on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since July 18, 2014 (the "Listing").

The consolidated financial statements are presented in Renminbi ("RMB") and the measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

Cogobuy.com E-commerce Services (Shenzhen) Limited (庫購網電子商務(深圳)有限公司, "Cogobuy E-commerce"), the Company's wholly-owned subsidiary, entered into a series of contractual arrangement ("Contractual Arrangements") with Shenzhen Cogobuy Information Technologies Limited (深圳市可購百信息技術有限公司, "Shenzhen Cogobuy"), wholly-owned by Ms. Yao Yi, and Ms. Yao Yi which enable Cogobuy Ecommerce to:

— exercise effective financial and operational control over Shenzhen Cogobuy;

— exercise equity shareholders' voting rights of Shenzhen Cogobuy;

— receive substantially all of the economic interest and returns generated by Shenzhen Cogobuy in consideration for the business support, technical and consulting services provided by Cogobuy E-commerce, at Cogobuy E-commerce's discretion;

— obtain an exclusive right to purchase the entire equity interest in Shenzhen Cogobuy from Ms. Yao Yi; and

— obtain a pledge over the entire equity interest of Shenzhen Cogobuy from Ms. Yao Yi as collateral security to guarantee performance of all of the obligations of Ms. Yao Yi and Shenzhen Cogobuy under the Contractual Arrangements.

Shenzhen Cogobuy holds an internet content provider licence (the "ICP licence") issued by the Guangdong Communications Administration. Due to applicable law and regulations of the PRC, foreign investors are prohibited from holding an ICP licence. As a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with Shenzhen Cogobuy, has the ability to affect those returns through its power over Shenzhen Cogobuy, and is considered to have control over Shenzhen Cogobuy. Consequently, Shenzhen Cogobuy is considered to be a subsidiary of the Group and the financial statements of Shenzhen Cogobuy are included in the Group's consolidated financial statements from February 1, 2013, the effective date of the Contractual Arrangements.

1 Significant Accounting Policies (Continued)

However, there are uncertainties regarding the interpretation and application of existing and future PRC laws and regulations which could affect the Company's ability to exercise control over Shenzhen Cogobuy, its right to receive substantially all of the economic interest generated by Shenzhen Cogobuy, and its ability to consolidate the financial results of Shenzhen Cogobuy into the Group's consolidated financial statements. The Company believes that, based on the legal opinion obtained from the Company's PRC legal counsel, the Contractual Arrangements are legally binding and enforceable and do not violate current PRC laws and regulations.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant Accounting Policies (Continued)

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized as other comprehensive income in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 1(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant Accounting Policies (Continued)

(f) Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date when control is transferred to the Group.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

1 Significant Accounting Policies (Continued)

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognized in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in profit or loss. The net gain or loss recognized in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 1(u)(iii) and (v).

Dated debt securities that the Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortized cost less impairment losses (see note 1(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale investment. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognized in profit or loss in accordance with the policies set out in notes 1(u)(iii) and 1(u)(v), respectively. Foreign exchange gains and losses resulting from changes in the amortized cost of debt securities are also recognized in profit or loss.

When the investments are derecognized or impaired (see note 1(l)), the cumulative gain or loss recognized in equity is reclassified to profit or loss. Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

(h) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

1 Significant Accounting Policies (Continued)

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Motor vehicles	5 years
—	Leasehold improvements	Over the lease terms
—	Furniture and office equipment	1 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalized development costs are stated at cost less accumulated amortization and impairment losses (see note 1(l)). Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(l)). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

1 Significant Accounting Policies (Continued)

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

—	Internet platform	3 years
—	Customer relationships	5 to 9 years
—	Domain name and trademark	11 years
—	Supplier relationships	9 years
—	Non-compete agreements	9 years

Both the period and method of amortization are reviewed annually.

(k) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

1 Significant Accounting Policies (Continued)

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale investments are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii)

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

1 Significant Accounting Policies (Continued)

— For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

— For available-for-sale investments, the cumulative loss that has been recognized in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

  Impairment losses recognized in profit or loss in respect of available-for-sale investments are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade and bills receivables and loan interest receivables included within trade and other receivables and loans to third parties, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables, loan interest receivables and loans to third parties directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

1 Significant Accounting Policies (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

— property, plant and equipment;

— non-current deposits and prepayments;

— intangible assets;

— goodwill; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

1 Significant Accounting Policies (Continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting,* in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognized in other comprehensive income and not profit or loss.

(m) Inventories

Inventories mainly comprise IC and other electronic components. Inventories are carried at the lower of cost and net realizable value.

Cost is calculated on the first in first out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(n) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Loans and receivables are carried at amortized cost using the effective interest method, less impairment losses, if any (see note 1(l)).

1 Significant Accounting Policies (Continued)

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables (including amounts due to related parties)

Trade and other payables (including amounts due to related parties) are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognized as an expense in profit or loss as incurred.

(ii) Equity-settled share-based compensation

The Group grants shares of the Company to employees at nil consideration under the Restricted Share Units Scheme ("RSU Scheme"), and the awarded shares under the RSU Scheme are either newly issued or are purchased from the open market. The cost of shares purchased from the open market is recognized in equity as shares held for RSU Scheme. The fair value of Restricted Share Units ("RSUs") granted to employees is recognized as an employee cost with a corresponding increase in share-based compensation reserve within equity. The fair value of the RSUs granted before Listing is measured at grant date by using the discounted cash flow method, taking into account the terms and conditions upon which the RSUs were granted while the fair value of the RSUs granted after Listing was measured by the quoted market price of the Company's shares at the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the RSUs, the total estimated fair value of the RSUs is spread over the vesting period, taking into account the probability that the RSUs will vest.

1 Significant Accounting Policies (Continued)

During the vesting period, the number of RSUs that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual number of RSUs that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the service conditions. The equity amount is recognized in the share-based compensation reserve until the RSUs are vested (when it is included in the amount recognized in share premium for the shares vested).

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

1 Significant Accounting Policies (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of the related dividends are recognized when the liability to pay dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

1 Significant Accounting Policies (Continued)

(t) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

The Group engages primarily in the sale of IC and other electronic components in the PRC. The Group also operates e-commerce marketplace platforms, cogobuy.com and ingdan.com, for the sale of IC and other electronic components. The e-commerce marketplace platforms also allow third-party electronic component merchants to sell their products to customers. Customers place their orders for products online through the website cogobuy.com and ingdan.com. The Group also engaged in providing supply chain financing services.

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss.

The Group evaluates whether it is appropriate to record the gross amount of sales of goods and the related costs or the net amount earned as commission. When the Group has the primary responsibility for providing the goods to the customer or for fulfilling the order, is subject to inventory risk, has latitude in establishing prices and bears the customer's credit risk, or has several but not all of these indicators, revenues is recognized on a gross basis. When the Group does not have exposure to the significant risks and rewards associated with the sale of goods, revenues are recorded on a net basis.

1 Significant Accounting Policies (Continued)

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax ("VAT") or other sales taxes and is after deduction of any trade discounts.

(ii) Marketplace income

Marketplace income primarily consists of commission fees charged to third-party merchants that sell products on the Group's marketplace platforms. These sales are generally transactions where the Group is not the primary obligor, is not subject to inventory risk, and does not have latitude in establishing prices and selecting suppliers. The Group charges third-party merchants commission fee based on a fixed percentage of the transaction amount. Marketplace income is recognized at the point of delivery of products by the merchants.

(iii) Dividends

— Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(iv) Supply chain financing services

Supply chain financing services comprise provision of interest-bearing loans.

Interest income for interest-bearing loans is recognized as it accrues using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued.

1 Significant Accounting Policies (Continued)

(v) Other interest income

Interest income for all other interest-bearing financial instruments is recognized in profit or loss on an accrual basis using the effective interest method (see note 1(u)(iv)).

(vi) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The Company's functional currency is United States dollar and the consolidated financial statements are presented in Renminbi. The results of operations with functional currency other than Renminbi are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Consolidated statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than Renminbi, the cumulative amount of the exchange differences relating to that operation with functional currency other than Renminbi is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(w) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

1 Significant Accounting Policies (Continued)

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly-controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant Accounting Policies (Continued)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the consolidated financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group is principally engaged in the sales of IC and other electronic components. The Group is also engaged in provision of supply chain financing services. Management considers that the revenue and profit is derived almost entirely from wholesales of IC and other electronic components for the years ended December 31, 2016 and 2015, and financial information regularly provided to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's lines of business and geographical locations does not meet the quantitative thresholds as set out in HKFRS 8, Operating Segments, to be reportable. Accordingly, no segment information is presented in the consolidated financial statements.

Substantially all of the Group's operations are in the PRC (including Hong Kong). Consequently, no geographic information is presented.

2 Accounting Judgement and Estimates

Sources of estimation uncertainty

Notes 13, 25 and 31 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of RSUs granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of non-financial assets

If circumstances indicate that the carrying value of a non-financial asset may not be recoverable, the asset may be considered impaired, and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(b) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value.

(c) Impairment of financial assets

The Group estimates the impairment of financial assets, including trade and other receivables, loans to third parties and available-for-sale investments, by assessing the recoverability based on factors such as credit history and prevailing market conditions. This requires the use of judgement and estimates. Impairment losses are applied to financial assets where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of financial assets and thus the impairment loss in the period in which such estimate is changed.

(d) Depreciation/amortization

Property, plant and equipment/intangible assets are depreciated/amortized on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation/amortization expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

3 Revenue

The principal activity of the Group is sales of IC and other electronic components in the PRC. The Group operates two e-commerce marketplaces for the sale of IC and other electronic components which are used by the Group and third-party merchants. The Group is also engaged in the provision of supply chain financing services.

Revenue mainly represents the sales value of goods delivered to customers, commission fees charged to third-party merchants for using the e-commerce marketplaces ("marketplace income") and interest income generated from the supply chain financing services. The amount of each significant category of revenue recognized during the year is as follows:

	2016 RMB'000	2015 RMB'000
Sales of IC and other electronic components	**12,829,115**	9,389,643
Marketplace income	**84,714**	45,987
Supply chain financing interest income	**18,965**	17,759
	12,932,794	9,453,389

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenue for the year ended December 31, 2016. In 2016, revenue from sales of IC and other electronic components to this customer amounted to approximately RMB1,383 million (2015: RMB314 million). Details of concentration of credit risk arising from this customer are set out in note 31(a). For the year ended December 31, 2015, there is no single customer with whom transactions have excessed 10% of the Group's revenue.

4 Other Income

	2016 RMB'000	2015 RMB'000
Bank interest income	**21,664**	24,813
Available-for-sale securities:		
— On impairment	**(37,144)**	(23,917)
— On disposal	**—**	23,630
Net realized gains on trading securities	**39,509**	—
Dividend income on securities	**2,181**	—
Government grants (note)	**2,119**	1,300
Others	**—**	30
	28,329	25,856

Note: During the year ended December 31, 2016, the Group received government grants of RMB2,119,000 from PRC local governments mainly for subsidizing the Group's research and development activities.

5 Profit Before Taxation

Profit before taxation is arrived at after charging/(crediting):

		2016 RMB'000	2015 RMB'000
(a)	**Finance costs**		
	Interest expense on bank loans	45,332	24,623
	Factoring costs (note 18)	10,652	5,447
		55,984	30,070
(b)	**Staff costs**		
	Contributions to defined contribution retirement plan (note 24)	14,745	11,167
	Equity-settled share-based compensation expenses (note 25)	36,753	32,045
	Salaries, wages and other benefits	135,285	106,237
		186,783	149,449
(c)	**Other items**		
	Amortization of intangible assets (note 12)	13,335	13,766
	Depreciation of property, plant and equipment (note 11)	2,186	1,144
	Auditors' remuneration	6,163	5,436
	Impairment loss on trade receivables (note 18(b))	32,040	31,880
	Net foreign exchange (gain)/loss	(1,151)	2,310
	Operating lease charges in respect of property rentals	17,098	12,337
	Research and development expenses (note)	62,613	55,874
	Cost of inventories (note 17(b))	11,821,566	8,680,932

Note: Research and development expenses include staff costs of employees in the design, research and development function of RMB53,423,000 (2015: RMB40,041,000) for the year ended December 31, 2016, which amount is also included in the staff costs as disclosed in note 5(b).

Research and development expenses also include operating lease charges in respect of property rentals of RMB3,593,000 (2015: RMB4,008,000), and amortization and depreciation charge of RMB585,000 (2015: RMB357,000) for the year ended December 31, 2016.

6 Income Tax in the Consolidated Statement of Comprehensive Income

(a) Taxation in the consolidated statement of comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax — PRC Corporation Income Tax		
Provision for the year	39,329	22,984
(Over)/under-provision in respect of prior years	(456)	366
	38,873	23,350
Current tax — Hong Kong Profits Tax		
Provision for the year	48,561	35,807
Under-provision in respect of prior years	444	2
	49,005	35,809
Deferred tax		
Origination and reversal of temporary differences	(2,200)	(2,271)
	85,678	56,888

(i) Cayman Islands and the BVI

Under the current laws of the Cayman Islands and the BVI, the entities that are incorporated in the Cayman Islands and the BVI are not subject to tax on income or capital gains.

(ii) Hong Kong

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2015-16 subject to a maximum reduction of $20,000 for each business (2015: a maximum reduction of $20,000 was granted for the year of assessment 2014-15 and was taken into account in calculating the provision for 2015). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

6 Income Tax in the Consolidated Statement of Comprehensive Income (Continued)

(iii) The PRC

Effective from January 1, 2008, the PRC statutory income tax rate is 25%. The PRC subsidiaries are subject to PRC Corporate Income Tax ("CIT") at statutory rate of 25%, unless otherwise specified below.

Cogobuy E-commerce, Shenzhen Cogobuy and FOXSAAS Information Technology (Shenzhen) Limited, being qualified software enterprises, are each granted a tax holiday of two-year tax exemption followed by three-year 50% tax reduction (subject to annual review) starting from the first profit making year from the PRC tax perspective under the then effective tax regulations ("2+3 tax holiday") during 2013. As a result, they are exempted from CIT for 2013 and 2014, and are subject to CIT at 12.5% from 2015 to 2017 and at 25% from 2018 onwards.

Qianhai Cogobuy.com (Shenzhen) Limited and INGDAN.com (Shenzhen) Limited, being qualified software enterprises, are granted a 2+3 tax holiday under the then effective tax regulations during 2015. As a result, they are exempted from CIT for 2015 and 2016, and are subject to CIT at 12.5% from 2017 to 2019 and 25% from 2020 onwards.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC-resident enterprises are levied withholding tax at 10%, unless reduced by tax treaties or similar arrangements, on dividends from their PRC-resident investees for earnings accumulated beginning on January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax.

Under the Arrangement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution).

For the purpose of the consolidated financial statements, the directors determine that the management of the Group can control the quantum and timing of distribution of profits of their PRC subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

6 Income Tax in the Consolidated Statement of Comprehensive Income (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 RMB'000	2015 RMB'000
Profit before taxation	**595,285**	423,369
Notional tax on profit before taxation, calculated at PRC statutory income tax rate of 25%	**148,821**	105,842
Tax effect of 2+3 tax holiday for PRC entities	**(85,534)**	(54,289)
Tax rate differential for Hong Kong entities	**(17,950)**	(12,513)
Entities of jurisdictions not subject to income tax	**18,030**	565
Hong Kong tax reduction (note 6(a)(ii))	**(220)**	(180)
Tax effect of non-taxable income	**(1,011)**	(1,786)
Tax effect of non-deductible expenses	**13,179**	11,545
Tax effect of unused tax losses not recognized	**10,733**	6,831
(Over)/under-provision in respect of prior years	**(12)**	368
Others	**(358)**	505
Actual tax expense	**85,678**	56,888

7 Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended December 31, 2016						
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note (25))	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:							
Mr. Kang Jingwei ("Mr. Kang")	–	1,019	–	24	1,043	372	1,415
Mr. Wu Lun Cheung Allen	–	1,019	–	15	1,034	372	1,406
Ms. Ni Hong, Hope	256	–	–	–	256	–	256
Non-executive director:							
Mr. Guo Jiang	256	–	–	–	256	–	256
Independent non-executive directors:							
Mr. Zhong Xiaolin, Forrest	256	–	–	–	256	–	256
Mr. Ye Xin	256	–	–	–	256	–	256
Mr. Yan Andrew Y	256	–	–	–	256	–	256
	1,280	2,038	–	39	3,357	744	4,101

7 Directors' Emoluments (Continued)

	Year ended December 31, 2015						
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note (25))	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:							
Mr. Kang Jingwei ("Mr. Kang")	–	1,020	–	23	1,043	880	1,923
Mr. Wu Lun Cheung Allen	–	1,020	–	15	1,035	880	1,915
Ms. Ni Hong, Hope	200	–	–	–	200	–	200
Non-executive director:							
Mr. Guo Jiang	200	–	–	–	200	–	200
Independent non-executive directors:							
Mr. Zhong Xiaolin, Forrest	240	–	–	–	240	–	240
Mr. Ye Xin	240	–	–	–	240	–	240
Mr. Yan Andrew Y	240	–	–	–	240	–	240
	1,120	2,040	–	38	3,198	1,760	4,958

During the year ended December 31, 2016, there were no amounts paid or payable by the Group to the directors or any of the highest paid individual set out in note 8 below as an inducement to join or upon joining the Group or as a compensation for loss of office (2015: Nil). There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended December 31, 2016 (2015: Nil).

8 Individuals with Highest Emoluments

Of the five individuals with highest emoluments, two (2015: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2015: three) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	2,851	2,298
Discretionary bonuses	—	—
Share-based payments	1,812	2,125
Retirement scheme contributions	168	139
	4,831	4,562

The emoluments of the three (2015: three) individuals with the highest emoluments in 2016 are within the following band:

	2016	2015
HK$1,500,001 to HK$2,000,000	3	3
HK$2,000,001 to HK$2,500,000	—	—
HK$2,500,001 to HK$3,000,000	—	—

9 Other Comprehensive Income

(a) Tax effects relating to each component of other comprehensive income

	2016 RMB'000	2015 RMB'000
Exchange difference on translation of financial statements of entities with financial currency other than Renminbi		
— before-tax amount	134,757	34,680
— tax expense	—	—
	134,757	34,680
Available-for-sale investments: net movement in fair value reserve		
— before-tax amount	4,904	—
— tax expense	—	—
	4,904	—
	139,661	34,680

(b) Components of other comprehensive income, including reclassification adjustments

	2016 RMB'000	2015 RMB'000
Available-for-sale investments:		
Changes in fair value recognized during the period	4,904	(287)
Reclassification adjustments for amounts transferred to profit or loss:		
— gains on disposal (note 4)	—	(23,630)
— impairment losses (note 4)	—	23,917
Net movement in the fair value reserve during the period recognized in other comprehensive income	4,904	—

(Expressed in Renminbi unless otherwise indicated)

10 Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB478,799,000 (2015: RMB342,875,000) and the weighted average of 1,379,543,000 (2015: 1,335,828,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016	2015
Issued ordinary shares at the beginning of the year	**1,340,679,000**	1,355,884,000
Issue of new shares (note 27(c)(i))	**43,951,000**	—
Issue of shares under the RSU Scheme (note 27(c)(ii))	**6,205,000**	3,131,000
Purchase of own shares (notes 27 (c)(iii), (iv),and (v))	**(11,292,000)**	(23,187,000)
Weighted average number of ordinary shares as of the end of the year	**1,379,543,000**	1,335,828,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB478,799,000 (2015: RMB342,875,000) and the weighted average number of ordinary shares of 1,389,098,000 shares (2015: 1,355,981,000 shares) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2016	2015
Weighted average number of ordinary shares as of the end of the year	**1,379,543,000**	1,335,828,000
Effect of deemed issue of shares under the Company's RSU Scheme for nil consideration (note 25)	**9,555,000**	20,153,000
Weighted average number of ordinary shares (diluted) as of the end of the year	**1,389,098,000**	1,355,981,000

11 Property, Plant and Equipment

	Motor vehicles RMB'000	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Total RMB'000
Cost:				
As of January 1, 2015	585	406	1,440	2,431
Additions	—	1,811	3,342	5,153
Exchange adjustments	—	18	15	33
As of December 31, 2015	585	2,235	4,797	7,617
As of January 1, 2016	585	2,235	4,797	7,617
Additions	738	4,881	5,583	11,202
Disposals	(442)	—	(568)	(1,010)
Exchange adjustments	34	29	69	132
As of December 31, 2016	915	7,145	9,881	17,941
Accumulated depreciation:				
As of January 1, 2015	176	406	214	796
Charge for the year	136	345	663	1,144
Exchange adjustments	—	18	6	24
As of December 31, 2015	312	769	883	1,964
As of January 1, 2016	312	769	883	1,964
Charge for the year	159	796	1,231	2,186
Written back on disposals	(297)	—	(154)	(451)
Exchange adjustments	6	29	18	53
As of December 31, 2016	180	1,594	1,978	3,752
Net book value:				
As of December 31, 2015	273	1,466	3,914	5,653
As of December 31, 2016	735	5,551	7,903	14,189

12 Intangible Assets

	Internet platform RMB'000	Customer relationships RMB'000	Domain name and trademark RMB'000	Supplier relationships RMB'000	Non-compete agreements RMB'000	Total RMB'000
Cost:						
As of January 1, 2015	2,659	33,662	1,981	—	—	38,302
Additions through business acquisition	—	2,374	—	45,507	5,216	53,097
Exchange adjustments	106	1,350	79	—	—	1,535
As of December 31, 2015	2,765	37,386	2,060	45,507	5,216	92,934
As of January 1, 2016	2,765	37,386	2,060	45,507	5,216	92,934
Exchange adjustments	200	2,515	148	—	—	2,863
As of December 31, 2016	2,965	39,901	2,208	45,507	5,216	95,797
Accumulated amortization:						
As of January 1, 2015	1,698	12,555	346	—	—	14,599
Charge for the year	894	7,054	182	5,056	580	13,766
Exchange adjustments	96	947	18	—	—	1,061
As of December 31, 2015	2,688	20,556	546	5,056	580	29,426
As of January 1, 2016	2,688	20,556	546	5,056	580	29,426
Charge for the year	79	7,428	192	5,056	580	13,335
Exchange adjustments	198	1,504	48	—	—	1,750
As of December 31, 2016	2,965	29,488	786	10,112	1,160	44,511
Net book value:						
As of December 31, 2015	77	16,830	1,514	40,451	4,636	63,508
As of December 31, 2016	—	10,413	1,422	35,395	4,056	51,286

The amortization charge for the year is included in "administrative and other operating expenses" in the consolidated statement of comprehensive income.

13 Goodwill

	RMB'000
Cost and carrying amount:	
At January 1, 2015	154,136
Additions through business combination	19,326
Exchange adjustments	10,798
At December 31, 2015 and January 1, 2016	184,260
Additions through business combination (note 32)	5,554
Exchange adjustments	11,845
At December 31, 2016	201,659

Impairment tests for cash-generating unit ("CGU") containing goodwill

For the purpose of goodwill impairment testing, goodwill arising from the business combinations was allocated to the CGU of the Group, which is the Group's sale of IC and other electronics components business.

The recoverable amount of the CGU is determined based on value in use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated weighted average growth rate of 3% for the CGU (2015: 3%).

The estimated weighted average growth rates are consistent with the forecast included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 17.5% (2015: 17.5%). Key assumptions used for the value in use calculations are the revenue, gross margins and growth rates. Management determined the budgeted revenue, gross margins and growth rates based on past performance and its expectation for market development.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as of December 31, 2016. The Group performs annual impairment test on goodwill at the end of the reporting period. Accordingly, no impairment loss for goodwill has been recognized in the consolidated statement of comprehensive income (2015: Nil).

14 Available-for-sale Investments

	2016 RMB'000	2015 RMB'000
Available-for-sale equity securities		
— Listed in Hong Kong	85,535	111,330
— Unlisted	21,891	3,000
	107,426	114,330
Investment in unlisted funds	471,212	—
	578,638	114,330
Non-current portion	107,426	114,330
Current portion	471,212	—
	578,638	114,330

The above unlisted equity securities represent investments in unlisted equity securities issued by private entities or partnership. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

The investment in unlisted funds is managed by a third party investment entity incorporated in the PRC. The annualized return rate of the fund investment is 8%. The principle and the return are guaranteed by the fund manager with its net asset.

(Expressed in Renminbi unless otherwise indicated)

15 Interest in Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Comtech Broadband Corporation Limited ("Comtech Broadband")	Hong Kong	20,000,000 shares	70%	–	70%	Sales of electronics components and related products
Comtech Digital Technology (Hong Kong) Limited ("Comtech Digital HK")	Hong Kong	10,000 shares	100%	–	100%	Sales of electronics components and related products
Comtech Digital Technology (Shenzhen) Limited 科通數字技術(深圳)有限公司 (note (i))	The PRC	US$300,000	100%	–	100%	Sales of electronics components and related products
Comtech Industrial (Hong Kong) Limited	Hong Kong	10,000 shares	100%	–	100%	Sales of electronics components and related products
Comtech Industrial Technology (Shenzhen) Company Limited 科通工業技術(深圳)有限公司 (formerly known as Epcot Multimedia Technology (Shenzhen) Co., Ltd. 奇利光電技術(深圳)有限公司) (note (i))	The PRC	US$500,000	100%	–	100%	Provision of media communication and collaboration platforms and solutions
Comtech International (Hong Kong) Limited	Hong Kong	1,000,000 shares	100%	–	100%	Sales of electronics components and related products
Cogobuy Limited	Hong Kong	1 share	100%	–	100%	Investment holding

(Expressed in Renminbi unless otherwise indicated)

15 Interest in Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Cogobuy E-commerce (note (i))	The PRC	HK$150,000	100%	—	100%	Development of ecommerce software technology and provision of ecommerce services
FOXSAAS Information Technology (Shenzhen) Limited 赤狐信息技術(深圳)有限公司 (note (i))	The PRC	US$300,000	100%	—	100%	Development and sales of electronic communication products
INGDAN.com Limited (formerly known as Envision Online Limited)	Hong Kong	1 share	70%	—	70%	Operate the ingdan.com platform
Ingdan Technology Limited	Hong Kong	100,000 shares	100%	—	100%	Sales of electronics components and related products
Hong Kong JJT Limited	Hong Kong	1 share	70%	—	70%	Investment holding
Hardeggs Holdings Limited	The BVI	US$1	70%	—	70%	Investment holding
Shenzhen Cogobuy 深圳市可購百信息技術有限公司 (notes (i) and 1(d))	The PRC	RMB1,000,000	100%	—	100%	Holder of the ICP licence in the PRC
Qianhai Cogobuy.com (Shenzhen) Limited 前海科通芯城通信技術(深圳)有限公司 (note (i))	The PRC	HK$200,000,000	100%	—	100%	Sales of components and related products
Cogobuy Finance Limited (formerly known as "Archive Finance Limited")	Hong Kong	1 share	100%	—	100%	Provision of supply chain financing services in Hong Kong

15 Interest in Subsidiaries (Continued)

Name of company	Place of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
United Wireless Technology (Hong Kong) Limited ("United Wireless") (formerly known as Cogobuy Wireless Technology (HK) Limited)	Hong Kong	1 share	51%	—	51%	Sales of electronics components and related products
Cogobuy Wireless HK Technology (Hong Kong) Limited ("Cogobuy Wireless HK")	Hong Kong	1 share	51%	—	51%	Sales of electronics components and related products
Cogobuy Wireless Technology (Shenzhen) Limited 科通無線科技(深圳)有限公司 (note (i))	The PRC	US$300,000	51%	—	51%	Sales of electronics components and related products

Note:

(i) These entities are enterprises established in the PRC. The English translation of the Company names is for reference only. The official names of these companies are in Chinese.

15 Interest in Subsidiaries (Continued)

The following table lists out the information relating to Cogobuy wireless HK, Comtech Broadband and United Wireless, the subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarized financial information presented below represents the amounts before any inter-company elimination.

	Cogobuy Wireless HK		Comtech Broadband		United Wireless	
	2016	2015	**2016**	2015	**2016**	2015
	(RMB'000, except percentage)		(RMB'000, except percentage)		(RMB'000, except percentage)	
NCI percentage	**49%**	49%	**30%**	30%	**49%**	49%
Current assets	**53,020**	98,776	**1,829,321**	943,650	**29,710**	15,778
Non-current assets	**—**	—	**63**	91	**—**	—
Current liabilities	**(23,412)**	(88,690)	**(1,755,223)**	(888,460)	**(21,424)**	(10,844)
Net assets	**29,608**	10,086	**74,161**	55,281	**8,286**	4,934
Carrying amount of NCI	**14,508**	4,942	**22,248**	16,585	**4,060**	2,418
Revenue	**652,541**	202,760	**3,774,749**	2,580,031	**93,065**	107,799
Profit for the year	**17,961**	9,780	**14,262**	11,957	**2,864**	4,239
Total comprehensive income	**19,522**	10,082	**18,878**	14,155	**3,351**	4,399
Profit allocated to NCI	**8,801**	4,792	**4,278**	3,587	**1,404**	2,077
Dividend paid to NCI	**—**	—	**—**	—	**—**	—
Cash flows from operating activities	**(475)**	9,413	**(983,793)**	(7,189)	**2,298**	(7,103)
Cash flows from investing activities	**—**	—	**467,045**	104,600	**—**	—
Cash flows from financing activities	**—**	—	**613,636**	(133,413)	**—**	9,670

16 Interest in an Associate and a Joint Venture

	2016 RMB'000	2015 RMB'000
Investment in an associate (note (i))	**15,446**	—
Investment in a joint venture (note (ii))	**1,000**	—
	16,446	—

(i) The following list contains the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Zim Hong Kong Limited	Incorporated	Hong Kong	2,973,529 ordinary shares	15%	—	15%	Trading of IC and other electronic components

The investment in the associate is accounted for using the equity method in the consolidated financial statements.

16 Interest in an Associate and a Joint Venture (Continued)

Summarized financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2016 RMB'000
Gross amounts of the associate's	
Current assets	457,151
Non-current assets	398
Current liabilities	(390,629)
Equity	66,920
Revenue	1,996,730
Profit from continuing operations	14,055
Other comprehensive income	—
Total comprehensive income	14,055
Dividend received from the associate	—
Reconciled to the group's interests in the associate	
Gross amounts of net assets of the associate	66,920
Group's effective interest	15%
Group's share of net assets of the associate	10,038
Goodwill	5,408
Carrying amount in the consolidated financial statements	15,446

(ii) The joint venture is a newly set up limited liability company in the PRC, in which the Group has 50% equity interest acquired by capital contribution of RMB1,000,000 upon its establishment. The joint venture has not yet started operations as of December 31, 2016.

17 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Finished goods	**1,394,835**	609,172

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**11,821,566**	8,680,932
Written down of inventories	**48,736**	7,706
	11,870,302	8,688,638

18 Trade and Other Receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	**2,079,935**	1,424,497
Bills receivable	**38,436**	29,799
Trade and bills receivables	**2,118,371**	1,454,296
Less: allowance for doubtful debts	**(90,204)**	(58,164)
	2,028,167	1,396,132
Loan interest receivables	**3,665**	4,393
Deposits and prepayments	**56,441**	25,048
Other receivables	**7,318**	4,618
	2,095,591	1,430,191

18 Trade and Other Receivables (Continued)

All of the trade and other receivables are expected to be recovered or recognized as expense within one year.

During the reporting period, the Group was subject to several factoring agreements with banks under which the banks pay an amount net of discount to the Group and collect the factored trade receivable balances directly from the Group's customers. The costs of the factoring arrangement ranged from 2.1% to 3.3% (2015: 1.7% to 2.7%) of the balance transferred and are included in "finance costs". The Group considered it had transferred the contractual rights to receive the cash flows of the trade receivables being factored and therefore recorded the transfers of trade receivables pursuant to the factoring agreements as sales. All of the factored trade receivables were accounted for as sales and derecognized upon transfer.

For the year ended December 31, 2016, the Group received proceeds of RMB3,279,046,000 (2015: RMB1,889,999,000) from sales of trade receivables. The Group recognized discounts of RMB10,652,000 (2015: RMB5,447,000) in finance costs for trade receivables sold to the banks for the year ended December 31, 2016.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 month	**1,272,570**	813,575
1 to 2 months	**466,007**	369,716
2 to 3 months	**206,970**	128,554
Over 3 months	**82,620**	84,287
	2,028,167	1,396,132

Trade and bills receivables are normally due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 31(a).

(b) Impairment of trade and bills receivables and loan interest receivables

Impairment losses in respect of trade and bills receivables and loan interest 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 and bills receivables and loan interest receivables directly (see note 1(l)(i)). No impairment loss has been recognized in respect of loan interest receivables for the year ended December 31, 2016 (2015: Nil).

18 Trade and Other Receivables (Continued)

The movement in the allowance for doubtful debts during the year, including the specific and collective components, is as follows:

	2016 RMB'000	2015 RMB'000
At January 1	58,164	26,284
Impairment loss recognized	32,040	31,880
At December 31	90,204	58,164

As of December 31, 2016, none of the trade and bills receivables or loan interest receivables were individually determined to be impaired (2015: Nil).

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	1,619,238	909,630
Less than 1 month past due	333,059	413,669
1 to 3 months past due	10,840	66,095
4 to 6 months past due	153	6,738
Over 6 months past due	2	—
	344,054	486,502
	1,963,292	1,396,132

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

19 Loans to Third Parties

	2016 RMB'000	2015 RMB'000
Unsecured loans	64,612	112,168
Secured loans	729,984	164,586
	794,596	276,754

Loans to third parties comprise unsecured loans without collateral and secured loans secured by the third-party borrowers' inventories, receivables or listed securities.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of loans to third parties, based on the maturity date, is as follows:

	2016 RMB'000	2015 RMB'000
1 to 2 months	150,618	22,477
2 to 3 months	64,691	219,247
Over 3 months	579,287	35,030
	794,596	276,754

Further details of the Group's credit policy are set out in note 31(a).

(b) Impairment of loans to third parties

Impairment losses in respect of loans to third parties 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 loans to third parties directly (see note 1(l)(i)).

As of December 31, 2016 and 2015, none of the loans to third parties was individually determined to be impaired.

(c) Loans to third parties that are not impaired

All of the loans to third parties that are neither individually nor collectively considered to be impaired are not past due.

Loans to third parties that were neither past due nor impaired relate to the borrowers for whom there were no recent history of default. The Group does not hold any collateral over the unsecured loan balances.

20 Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement comprise:

	2016 RMB'000	2015 RMB'000
Cash at bank and on hand	1,825,543	1,024,269

As of December 31, 2016, the Group's cash and cash equivalents in the amount of RMB736,240,000 (2015: RMB122,300,000) is denominated in Renminbi and is deposited in banks in the PRC. Renminbi is not a freely convertible currency and 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.

21 Trade and Other Payables

	2016 RMB'000	2015 RMB'000
Trade payables	967,407	707,414
Accrued staff costs	23,566	22,006
Other payables	36,103	20,154
	1,027,076	749,574

All of the trade and other payables are expected to be settled within one year or repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 month	776,136	673,406
1 to 3 months	157,271	22,235
Over 3 months	34,000	11,773
	967,407	707,414

22 Pledged Deposits and Bank Loans

All of the bank loans were secured and repayable within one year.

As of December 31, 2015 and 2016, the Group had entered into several banking facilities including letters of guarantee, bank loans, trade receivables factoring facilities and irrecoverable letters of credit.

(a) Banking Facilities

Details of the banking facilities and the borrowings drawn by the Group at the end of the reporting period are set out below:

	2016 RMB'000	2015 RMB'000
Aggregate credit limit	6,304,244	3,486,999
Outstanding loans	(3,797,382)	(2,125,876)
Trade receivables factoring facilities utilized	(629,475)	(414,001)
Unutilized facilities	1,877,387	947,122

As of December 31, 2016, the banking facilities were secured by cash of RMB1,652,434,000 (December 31, 2015: RMB1,246,977,000) pledged by the Group.

(b) Bank covenants

As of December 31, 2016, the banking facilities contain various covenants, including the Group's consolidated net borrowing ratio not exceeding 30% of consolidated tangible net worth and the Group maintaining a tangible net worth of not less than RMB1,000,000,000. Other conditions include Mr. Kang, the controlling shareholder of the Company, remaining as the single largest shareholder of the Company and retaining at least 40% equity interest of the Company. As of December 31, 2016, none of the covenants relating to the banking facilities had been breached (2015: Nil).

Consolidated net borrowing is defined as the aggregate amount of all obligations of the Group in respect of borrowings deducting cash and cash equivalent investments and pledged deposits of the Group.

23 Amount Due to a Related Party

	2016 RMB'000	2015 RMB'000
Amount due to non-controlling interests	**38,985**	35,687

As at December 31, 2016 and 2015, the amount due to non-controlling interests represented the purchase consideration payable of RMB18,589,000 for the acquisition of the business operation of World Style Group and advance from non-controlling interests of RMB20,396,000 to a subsidiary of the Group. The amount is unsecured, interest-free and repayable on demand.

24 Employee Retirement Benefits

Defined contribution retirement plans

Pursuant to the relevant rules and regulations in the PRC, the PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organized by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the year. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

25 Equity-Settled Share-Based Transactions

On March 1, 2014, the Company's shareholders and directors adopted the RSU Scheme and granted 30,200,000 RSUs to directors and employees of the Company and its subsidiaries. The purpose of the RSU Scheme is to reward the fidelity and performance of the directors and employees of the Company and its subsidiaries. The RSUs are the rights to receive Company's shares when they vest pursuant to the conditions provided for under the RSU Scheme. Each RSU gives the holder a right to receive a share at the end of respective vesting period. Immediately after the Listing, 30,200,000 ordinary shares were issued by the Company under the RSU Scheme and they represented 2.20% of the total issued share capital of the Company. The shares were held on trust by the RSU Scheme trustee until their release to the beneficiaries upon vesting of the RSUs.

(Expressed in Renminbi unless otherwise indicated)

25 Equity-Settled Share-Based Transactions (Continued)

On July 8, 2015, the Company granted an additional 17,940,000 RSUs to employees of the Company and its subsidiaries under the RSU Scheme. Shares repurchased by the Company on the Stock Exchange were held by the RSU Scheme trustee for the purpose of the RSU Scheme (see note 27(c)(v)).

The directors estimated the fair value of the RSUs granted on March 1, 2014 to be RMB51,963,000 (US$8,456,000) in total or RMB1.72 (US$0.28) per unit and the fair value of RSU granted on July 8, 2015 to be RMB69,861,000 (HK$88,085,000) in total or RMB3.89 (HK$4.91) per unit.

Share-based payment expenses of RMB36,753,000 were recognized as staff costs in profit or loss for the year ended December 31, 2016 (2015: RMB32,045,000) and the remaining balance is to be recognized in 2017 and 2018 based on the respective vesting periods.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions
RSUs granted to directors:		
— on March 1, 2014	3,600,000	Notes (i), (iii)
RSUs granted to employees:		
— on March 1, 2014	19,346,300	Notes (i), (iii)
— on March 1, 2014	7,253,700	Notes (ii), (iii)
— on July 8, 2015	17,940,000	Notes (iv), (v)
Total RSUs granted	48,140,000	

Notes:

(i) The RSUs granted in 2014 have a vesting period of three years as follows:

- One-third of which have vested for the year ended December 31, 2014 in equal quarterly installments
- One-third of which have vested for the two years ended December 31, 2015 in equal quarterly installment
- One-third of which have vested for the three years ended December 31, 2016 in equal quarterly installments

(ii) The RSUs granted have a one-year vesting period ended December 31, 2014.

(iii) Vesting of the RSUs is conditional upon the Listing and after a share subdivision of the share capital of the Company from US$1 per share to 10,000,000 shares of US$0.0000001 per share. Directors and employees who leave the Group forfeit their right to any unvested RSUs.

(iv) The RSUs granted in 2015 have a vesting period of three years as follows:

- One-third of which have vested for the 12 months ended July 7, 2016 in equal quarterly installments
- One-third of which will vest for the 24 months ending July 7, 2017 in equal quarterly installments
- One-third of which will vest for the 36 month ending July 7, 2018 in equal quarterly installments

(v) Employees who leave the Group before July 7, 2018 forfeit their right to any unvested RSUs.

(Expressed in Renminbi unless otherwise indicated)

25 Equity-Settled Share-Based Transactions (Continued)

(b) The movement of the RSUs is as follows:

	2016 Number of RSUs	2015 Number of RSUs
Outstanding as of the beginning of the year	23,630,500	14,730,800
Granted during the year	—	17,940,000
Vested during the year	(12,720,400)	(8,685,400)
Forfeited during the year	(1,355,100)	(354,900)
Outstanding as of the end of the year	9,555,000	23,630,500

(c) Fair value of RSUs and assumptions

The fair value of services received in return for RSUs granted is measured by reference to the fair value of RSUs granted. The estimate of the fair value of the RSUs granted on March 1, 2014 was determined using the discounted cash flow method and adopting an equity allocation method to determine the fair value of the RSUs as at the grant date. Key assumptions are set out as below:

	Granted on March 1, 2014
Fair value of RSUs and assumptions	
Discount rate	17.5%
Risk-free interest rate	3.265%
Volatility	16.0%
Dividend yield	0.0%

The fair value of RSUs granted on July 8, 2015 was measured by the quoted market price of the Company's shares at the grant date.

26 Income Tax in the Consolidated Statement of Financial Position

(a) Current taxation in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
At 1 January	43,334	21,792
Exchange adjustments	(3,134)	803
Provision for PRC Corporate Income Tax	38,873	23,350
Provision for Hong Kong Profits Tax	49,005	35,809
Income taxes paid	(46,302)	(38,420)
At 31 December	81,776	43,334

(b) Deferred tax liabilities recognized

The components of deferred tax liabilities recognized in the consolidated statement of financial position and the movements during the year are as follows:

	Amortization of intangible assets RMB'000
As of January 1, 2015	3,912
Additions through business combination	8,761
Credited to profit or loss	(2,271)
Exchange adjustments	360
As of December 31, 2015 and January 1, 2016	10,762
Credited to profit or loss	(2,200)
Exchange adjustments	397
As of December 31, 2016	8,959

26 Income Tax in the Consolidated Statement of Financial Position (Continued)

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 1(s), the Group has not recognized deferred tax assets in respect of cumulative tax losses of RMB33,715,000 (2015: RMB56,283,000) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. The tax losses for the PRC subsidiaries amounting to RMB9,000, RMB11,000, RMB3,008,000 and RMB30,584,000 will expire in 2018, 2019, 2020 and 2021 respectively. The tax losses for the Hong Kong subsidiaries do not expire under the current Hong Kong tax legislation.

(d) Deferred tax liabilities not recognized

At 31 December 2016, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB1,046,120,000 (2015: RMB568,162,000). Deferred tax liabilities of RMB55,408,000 (2015: RMB31,360,000) have not been recognized in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

27 Capital, Reserves and Dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Other reserve RMB'000	Shares held for the RSU Scheme RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As of January 1, 2015		1	1,064,067	18,923	10,814	186,196	–	3,910	(91,032)	1,192,879
Changes in equity for 2015:										
Loss for the year		–	–	–	–	–	–	–	(28,539)	(28,539)
Other comprehensive income for the year		–	–	–	–	–	–	49,967	–	49,967
Total comprehensive income		–	–	–	–	–	–	49,967	(28,539)	21,428
Equity-settled share-based compensation		–	–	–	32,045	–	–	–	–	32,045
Issue of shares under the RSU Scheme	27(c)(ii)	–	18,411	–	(18,411)	–	–	–	–	–
Purchase of own shares	27(c)(iii)	–	(82,600)	–	–	–	–	–	–	(82,600)
Purchase of shares held for RSU Scheme		–	–	–	–	–	(8,845)	–	–	(8,845)
		–	(64,189)	–	13,634	–	(8,845)	–	–	(59,400)
As of December 31, 2015 and January 1, 2016		1	999,878	18,923	24,448	186,196	(8,845)	53,877	(119,571)	1,154,907
Changes in equity for 2016:										
Loss for the year		–	–	–	–	–	–	–	(60,495)	(60,495)
Other comprehensive income for the year		–	–	–	–	–	–	151,069	–	151,069
Total comprehensive income		–	–	–	–	–	–	151,069	(60,495)	90,574
Issue of new shares	27(c)(i)	–	1,719,913	–	–	–	–	–	–	1,719,913
Equity-settled share-based compensation		–	–	–	36,753	–	–	–	–	36,753
Issue of shares under the RSU Scheme	27(c)(ii)	–	37,416	–	(37,416)	–	–	–	–	–
Purchase of own shares	27(c)(iv)	–	(381,674)	–	–	–	–	–	–	(381,674)
Purchase of shares held for RSU Scheme	27(c)(v)	–	–	–	–	–	(99,876)	–	–	(99,876)
		–	1,375,655	–	(663)	–	(99,876)	–	–	1,275,116
As of December 31, 2016		1	2,375,533	18,923	23,785	186,196	(108,721)	204,946	(180,066)	2,520,597

(Expressed in Renminbi unless otherwise indicated)

27 Capital, Reserves and Dividends (Continued)

(b) Dividend

The board of directors does not recommend the distribution of a final dividend for the year ended December 31, 2016 (2015: Nil).

(c) Share capital

	2016 No. of shares	2016 Amount US$	2015 No. of shares	2015 Amount US$
Authorized:				
Ordinary shares of US$0.0000001/ US$1 each	500,000,000,000	50,000	500,000,000,000	50,000
Ordinary shares, issued and fully paid:				
At the beginning of the year	1,362,262,500	136	1,372,045,000	137
Issue of new shares (note (i))	160,420,232	16	—	—
Issue of new shares under the RSU Scheme (note (ii))	—	—	14,107,500	1
Purchase of own shares (notes (iii), (iv) and (v))	(21,410,000)	(2)	(23,890,000)	(2)
At the end of the year	1,501,272,732	150	1,362,262,500	136

Notes:

(i) On 22 September 2016, the Company had completed a placing of an aggregate of 160,420,232 new shares at a placing price of HK$12.5 each share. The net proceed from the placing of new share amounted to HKD2,000,603,000 (equivalently RMB1,719,913,000), of which RMB1,719,913,000 was charged to share premium within consolidated equity.

(ii) For the year ended December 31, 2015, an additional 14,107,500 ordinary shares were issued by the Company under the RSU Scheme. 8,685,400 units of RSUs were vested to the beneficiaries, RMB18,411,000 were credited to the share premium account.

For the year ended December 31, 2016, 12,720,400 units of RSUs were vested to the beneficiaries, RMB37,416,000 were credited to the share premium account. The remaining shares are held on trust by the RSU Scheme trustee until their release to the beneficiaries upon the vesting of the RSUs (see note 25).

27 Capital, Reserves and Dividends (Continued)

(iii) During the year ended December 31, 2015, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price per share HK$	Lowest price per share HK$	Aggregate amount paid HK$'000
January 2015	15,791,000	4.43	4.08	67,760
February 2015	7,899,000	4.50	3.95	32,603
July 2015	200,000	5.00	4.83	980
	23,890,000			101,343

These repurchased shares were cancelled immediately upon repurchase. The issued share capital of the Company was reduced by the nominal value of US$2.39. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of US$2.39 (equivalent to RMB14.81) was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of HK$101,343,000 (equivalent to RMB82,600,000) was charged to share premium.

(iv) During the year ended December 31, 2016, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price per share HK$	Lowest price per share HK$	Aggregate amount paid HK$'000
January 2016	3,075,000	8.28	7.90	24,824
February 2016	1,437,000	8.30	7.92	11,650
May 2016	5,416,000	10.96	10.50	57,639
October 2016	4,536,000	12.30	12.04	55,088
November 2016	7,632,000	12.50	11.42	91,533
December 2016	17,083,000	12.00	11.22	200,849
	39,179,000			441,583

Of the 39,179,000 shares repurchased, 21,410,000 shares were cancelled as of December 31 2016, and the remaining 17,769,000 shares were cancelled after the end of the reporting period. The issued share capital of the Company was reduced by the nominal value of US$3.92. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of US$2.14 (equivalent to RMB14.21) was transferred from the share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of HK$441,583,000 (equivalent to RMB381,674,000) was charged to share premium.

27 Capital, Reserves and Dividends (Continued)

(v) During the year ended December 31, 2016, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price per share HK$	Lowest price per share HK$	Aggregate amount paid HK$'000
November 2016	9,284,000	12.37	11.66	111,534

These repurchased shares were held by the RSU Scheme trustee for the purpose of the RSU Scheme (note 25). The consideration paid on the repurchase of the shares of HK$111,534,000 (equivalent to RMB99,876,000) is presented as shares held for the RSU Scheme in the consolidated statement of changes in equity and deducted from total equity.

(d) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(e) Capital reserve

An amount of US$3,000,000 (equivalent to RMB18,923,000) was contributed by the shareholder in the form of cash during 2012. The amount has been recorded as capital reserve in the consolidated financial statements.

(f) Share-based compensation reserve

The share-based compensation reserve represents the portion of the grant date fair value of RSUs granted to the directors and employees of the Company and its subsidiaries that has been recognized in accordance with the accounting policy adopted for share-based payments in note 1(r)(ii).

(g) Other reserve

On March 15, 2013, 99 new shares of the Company were issued in connection with the acquisition of Total Dynamic Entities. The fair value of the Company's new shares was estimated to be approximately RMB186,196,000 and was credited to share capital (nominal value) and other reserve.

On April 29, 2016, Gold Tech Holdings Limited ("Gold Tech"), a wholly owned subsidiary of the Group, purchased the remaining 40% equity interest of Comtech Digital HK, a subsidiary of the Group, at a consideration of RMB240,000,000. The difference between the consideration and the relevant share of the carrying amount of the net assets of Comtech Digital HK, amounting to RMB212,482,000, was debited to other reserve.

27 Capital, Reserves and Dividends (Continued)

(h) Shares held for RSU Scheme

The consideration paid for purchasing the Company's shares from the market is presented as "Shares held for RSU Scheme" and the amount is deducted from total equity.

When the Company's shares are transferred to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for RSU Scheme", with a corresponding adjustment made to "Share premium".

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(j) Statutory reserves

According to laws applicable to the foreign investment enterprises in the PRC and the Articles of Association of certain subsidiaries of the Company in the PRC, the PRC entities are required to appropriate part of their net profits as determined in accordance with the PRC GAAP to various reserves. These include general reserve and statutory surplus reserve.

For general reserve, appropriation to general reserve is at the discretion of the directors of the relevant PRC entities. The reserve can only be used for specific purposes and is not distributable as cash dividends.

For statutory surplus reserve, 10% of the net profit, as determined in accordance with the PRC GAAP, of the relevant PRC entities is transferred to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant PRC companies. The transfer to this reserve must be made before distribution of dividends to shareholders can be made. The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issue is not less than 25% of the registered capital. Any amount of funds outside of the 50% reserve balance can be distributed as by the relevant PRC entities, as advances or cash dividends, subject however, to complying with applicable requirements. Such dividend or loans could take a considerable amount of time to implement and to be processed by certain governmental agencies.

(k) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 1(g) and 1(l)(i).

27 Capital, Reserves and Dividends (Continued)

(l) Distributable reserves

As of December 31, 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to RMB2,520,596,000 (2015: RMB1,154,906,000).

(m) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt as total interest-bearing loans less cash and cash equivalents and pledged deposits. The Group defines "capital" as all components of equity.

The net debt-to-capital ratio as of December 31, 2016 and 2015 was as follows:

	2016 RMB'000	2015 RMB'000
Interest-bearing borrowings	3,797,382	2,125,876
Less: Cash and cash equivalents	(1,825,543)	(1,024,269)
Pledged deposits	(1,652,434)	(1,246,977)
Net debt/(cash)	319,405	(145,370)
Total equity	3,685,935	2,001,551
Net debt-to-capital ratio (note)	8.67%	—

Note: No net debt-to-capital ratio as of December 31, 2015 is presented as the Group were at net cash position as of that date.

Except for the banking facilities which require the fulfilment of certain covenants as disclosed in note 22, neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

28 Commitments

(a) Operating lease commitments

As of December 31, 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within one year	12,525	8,400
After one year but within five years	10,106	4,599
	22,631	12,999

The Group leases properties under operating lease. The leases typically run for an initial period of one to five years. None of the leases includes contingent rentals.

(b) As of December 31, 2016, the Group has outstanding purchase orders for IC and other electronic components from suppliers in the amount of approximately RMB2,538,852,000 (2015: RMB1,082,445,000). The Group does not have any minimum purchase obligations with these suppliers. Other than as described above and in note 29, the Group had no other material contractual obligations, off-balance sheet guarantees or arrangements as of December 31, 2016 (2015: Nil).

29 Contingent liabilities

As of December 31, 2016 and 2015, the Company issued several guarantees to banks in respect of the banking facilities granted to subsidiaries of the Company. The maximum liability of the Company at the end of the reporting period under these guarantees issued is the outstanding amount of the bank loans drawn down by the subsidiaries (see note 22). As of December 31, 2016 and 2015, management of the Company did not consider it is probable that a claim will be made against the Company under any of the guarantees.

30 Material Related Party Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	6,169	5,458
Post-employment benefits	207	177
Equity compensation benefits	2,556	3,885
	8,932	9,520

(b) The Group entered into the following significant related party transactions during the year:

	Note	2016 RMB'000	2015 RMB'000
Interest income from a related party	(i)	1,299	—
Provision of agency services, administrative and consultancy services to a company controlled by a director of the Company	(ii)	9,057	387

30 Material Related Party Transactions (Continued)

Notes:

(i) During the year ended December 31, 2016, the Group has provided a loan of US$3,000,000 and a one year stand-by letter of credit of US$4,000,000 to Zim Hong Kong Limited, an associate of the Group, at an interest rate of 7% for the purpose of supply chain financing. The Group has obtained security assignment of receivables and inventories as collateral.

(ii) On December 11, 2015, the Group entered into a series of agreements (Purchase Option Agreement, Agency Agreement and Service Agreement) with Comtech Communication Technology (Shenzhen) Company Limited ("CCT") and Comtech Small Loan Company Limited (深圳市科通小額貸款有限責任公司, "Comtech Small Loan"), a subsidiary of CCT. CCT is a limited liability company incorporated on July 23, 2002 in the PRC and owned by Mr. Kang. Comtech Small Loan is a limited liability company incorporated on November 22, 2015 and holds a small loan license that allows it to provide financing to small enterprises, individual entrepreneurs and individuals in the PRC. The main purpose of such arrangements is to provide the Group's supply chain customers access to financing in the PRC from Comtech Small Loan.

Pursuant to the Purchase Option Agreement, CCT would grant the Group an option (the "Purchase Option") with the option term of three years for the Group or any third party designated by the Group to acquire, at its discretion and through one or more transactions, the entire equity interest in Comtech Small Loan for a cash consideration of RMB300,000,000, or part of the equity interest in Comtech Small Loan for a cash consideration proportional to the percentage of the equity interest being acquired. The cash consideration of RMB300,000,000 was determined based on the registered and paid up capital of Comtech Small Loan on the date of the Purchase Option Agreement.

Under the Purchase Option Agreement, the Group may transfer up to an aggregate of RMB200,000,000 to CCT within three years from December 11, 2015 as advance payment for the purchase of the equity interest in Comtech Small Loan (such sum will be deducted from the total consideration payable when the option to acquire the entire or part of the equity interest of Comtech Small Loan is exercised). The advance payment is not interest-bearing and does not constitute an exercise of the option by the Purchaser. As at December 31, 2016, no advance payment has been made.

Pursuant to the Agency Agreement signed with CCT, the Group would provide client referral service for a service fee amounting to 80% of the fees and interest receivables by Comtech Small Loan from the referred customers. As of December 31, 2016, borrowings of RMB137,640,000 were extended to customers referred by the Group to Comtech Small Loan and service fee earned by the Group for the year ended December 31, 2016 amounted to RMB8,938,000 (2015: RMB387,000) under the Agency Agreement.

Pursuant to the Service Agreement signed with CCT, the Group would also provide administrative and consultancy services to Comtech Small Loan at the prevailing market rate of comparable services and amounting to no more than 1% of Comtech Small Loan's yearly turnover will be received by the Group. Service fee earned by the Group from provision of administrative and consultancy services to Comtech Small Loan for the year ended December 31, 2016 amounted to RMB119,000 (2015:Nil) under the Service Agreement.

The related party transactions in respect of the Purchase Option Agreement, Agency Agreement and Service Agreement above constitute a connected transaction or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided under the paragraph Connected Transactions of the directors' report.

31 Financial Risk Management and Fair Values of Financial Instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivables, loan interest receivables and loans to third parties under supply chain financing services and amounts due from a related party. Management has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis.

In respect of trade and bills receivables, 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 take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors are normally due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 23.7% (2015: 26.2%) of the total trade receivables were due from the Group's five largest customers, among which, 11.9% (2015: 6.5%) of the total trade receivables as of December 31, 2016 were due from the largest customer.

In respect of loan interest receivables and loans to third parties, management has established policies and systems for the monitoring and control of credit risk. The Group manages and analyzes the credit risk for each of their new and existing clients before payment terms and conditions are offered. The Group assesses the credit quality of the third parties under supply chain financing services, taking into account its financial position, past experience and other factors. Impairment allowances on loan interest receivables and loans to third parties are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis. The assessment normally encompasses the anticipated receipts for the individual balance. At the end of the reporting period, 91.9% (2015: 85.1%) of the loan interest receivables and loans to third parties were due from the largest supply chain financing customer. During the year ended December 31, 2016, management assessed that no loan interest receivables or loans to third parties were determined to be impaired.

Cash and cash equivalents and pledged deposits are placed with financial institutions with sound credit ratings to minimize credit exposure.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables, loan interest receivables and loans to third parties are set out in notes 18 and 19.

31 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities as of the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay.

	2016		
	Contractual undiscounted cash outflow		**Carrying amount as of December 31, 2016**
	Within 1 year or on demand	**Total**	
	RMB'000	**RMB'000**	**RMB'000**
Trade and other payables	**995,595**	**995,595**	**995,595**
Bank loans	**3,809,603**	**3,809,603**	**3,797,382**
Amount due to a related party	**38,985**	**38,985**	**38,985**
	4,844,183	**4,844,183**	**4,831,962**

	2015		
	Contractual undiscounted cash outflow		Carrying amount as of December 31, 2015
	Within 1 year or on demand	Total	
	RMB'000	RMB'000	RMB'000
Trade and other payables	749,574	749,574	749,574
Bank loans	2,139,545	2,139,545	2,125,876
Amount due to a related party	35,687	35,687	35,687
	2,924,806	2,924,806	2,911,137

31 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from fixed rate borrowings that expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total interest-bearing borrowings as of the end of the reporting period:

	2016		2015	
	Effective interest rate	**Principal amount RMB'000**	Effective interest rate	Principal amount RMB'000
Fixed rate borrowing:				
Bank loans	**1.95%**	**3,797,382**	1.91%	2,125,876

(ii) Sensitivity analysis

As of December 31, 2016 and 2015, all of the Group's interest bearing borrowings are fixed rate borrowings, no sensitivity analysis on interest rate risk is presented.

(d) Currency risk

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

31 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure as of the end of the reporting period to currency risk arising from recognized assets or liabilities denominated in RMB and United States dollars. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the subsidiaries with functional currency other than RMB into the Group's presentation currency are excluded.

	2016		2015	
	United States dollars RMB'000	**Renminbi RMB'000**	United States dollars RMB'000	Renminbi RMB'000
Trade and other receivables	**1,762,223**	**–**	1,233,829	38,283
Loans to third parties	**794,596**	**–**	241,724	35,030
Pledged deposits	**1,126,032**	**373,007**	590,121	462,865
Cash and cash equivalents	**347,696**	**359,957**	565,250	318,581
Trade and other payables	**(792,089)**	**–**	(666,484)	–
Bank loans	**(3,797,382)**	**–**	(2,125,876)	–
Net exposure arising from recognized assets and liabilities	**(558,924)**	**732,964**	(161,436)	854,759

31 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States dollars	5%	(27,946)	5%	(8,072)
	(5)%	27,946	(5)%	8,072
Renminbi	5%	36,648	5%	42,738
	(5)%	(36,648)	(5)%	(42,738)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and retained profits, measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of each reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose to foreign currency risk as of the end of the reporting period, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of entities whose functional currency is not Renminbi. The analysis is performed on the same basis for 2015.

31 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale investments (see note 14). Other than unquoted securities and held for strategic purposes investment in funds, all of these investments are listed.

The Group's listed investments are listed on the Stock Exchange of Hong Kong. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

At December 31, 2016, it is estimated that an increase/(decrease) of 5% (2015: 5%) in the relevant stock market index with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

		2016	
		Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Change in the relevant equity price risk variable:			
Increase	5%	–	4,921
Decrease	(5)%	–	(4,921)

		2015	
		Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Change in the relevant equity price risk variable:			
Increase	5%	–	7,848
Decrease	(5)%	–	(7,848)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2015.

31 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(f) Fair value measurement

(a) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at December 31, 2016	Fair value measurements as at 31 December 2016 categorized into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements				
Assets:				
Available-for-sale investments:				
— Listed securities	85,535	85,535	—	—
— Investments in unlisted funds	471,212	—	471,212	—

	Fair value at December 31, 2015	Fair value measurements as at 31 December 2015 categorized into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements				
Assets:				
Available-for-sale investments:				
— Listed securities	111,330	111,330	—	—

During the year ended December 31, 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

31 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at 31 December 2015 and 2016.

32 Business combinations

On April 1, 2016, Cogobuy Investments Holdings Limited, a wholly owned subsidiary of the Group, completed the acquisition of Tecnomic Components Pte. Ltd. ("Tecnomic") at a consideration of US$800,000. The principal activities of Tecnomic are the distribution and sales of IC and other electronic components. No assets were acquired nor liabilities assumed by the Group from the acquisition.

The goodwill arising from the acquisition of Tecnomic, amounting to RMB5,554,000, represented the future economic benefits from the synergy effect of the business combination.

33 Company-Level Statement of Financial Position

	Note	December 31, 2016 RMB'000	December 31, 2015 RMB'000
Non-current asset			
Interest in subsidiaries	15	1,996,393	718,899
Current assets			
Prepayment		–	3,290
Other receivables		–	–
Pledged deposits		138,860	559,940
Cash and cash equivalents		417,253	69,722
		556,113	632,952
Current liabilities			
Trade and other payables		12,089	5,219
Current taxation		1,783	1,731
Amounts due to related parties		18,037	189,994
		31,909	196,944
Net current assets		524,204	436,008
NET ASSETS		2,520,597	1,154,907
CAPITAL AND RESERVES	27(a)		
Share capital		1	1
Reserves		2,520,596	1,154,906
TOTAL EQUITY		2,520,597	1,154,907

34 Immediate and Ultimate Controlling Party

As of December 31, 2016, the directors consider the immediate and ultimate controlling company of the Group to be Envision Global Investments Limited, which is incorporated in the BVI. This entity does not produce financial statements available for public use.

(Expressed in Renminbi unless otherwise indicated)

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the year ended December 31, 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended December 31, 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the year ended December 31, 2016 (Continued)

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortized cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

— The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognized in profit or loss.

— For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognized in profit or loss. Gains, losses and impairments on that security will be recognized in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortized cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognize fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 1(g) and 1(l). This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognized in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the year ended December 31, 2016 (Continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(u). Currently, revenue from the sale of goods is generally recognized when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognized when the customer obtains control of the promised good in the contract. HKFRS 15 identifies 3 situations in which control of the promised good is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognizes revenue for the sale of that good at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the year ended December 31, 2016 (Continued)

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 the point in time when revenue is recognized may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognizes revenue and cost of sales when the customers have a right of return. However, the new requirement to recognize separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognizing a separate asset.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the year ended December 31, 2016 (Continued)

HKFRS 16, Leases

Currently the Group only enters operating leases.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in profit or loss over the period of the lease. As disclosed in note 28(a), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB21,898,000 for properties, the majority of which is payable either within 1 year or between 1 and 5 years. Some of these amounts may therefore need to be recognized as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the consolidated results and assets and liabilities of the Group is set out below:

	For the year ended December 31, 2016 RMB'000	For the year ended December 31, 2015 RMB'000	For the year ended December 31, 2014 RMB'000	For the year ended December 31, 2013 RMB'000	Period from February 1, 2012 (date of inception) to December 31, 2012 RMB'000
Results					
Revenue	**12,932,794**	9,453,389	6,848,365	2,417,277	199,306
Profit from operation	**649,255**	453,439	268,165	122,640	40,773
Finance costs	**(55,984)**	(30,070)	(31,160)	(20,192)	(2,574)
Profit before taxation	**595,285**	423,369	237,005	102,448	38,199
Income tax	**(85,678)**	(56,888)	(27,035)	(15,883)	(8,580)
Profit for the year	**509,607**	366,481	209,970	86,565	29,619
Attributable to:					
— Equity shareholders of the Company	**478,799**	342,875	194,118	82,099	29,619
— Non-controlling interests	**30,808**	23,606	15,852	4,466	—
Profit for the year	**509,607**	366,481	209,970	86,565	29,619
Earnings per share					
Basic (RMB)	**0.347**	0.257	0.168	0.089	2.962
Diluted (RMB)	**0.345**	0.253	0.166	0.089	2.962

	As of December 31, 2016 RMB'000	As of December 31, 2015 RMB'000	As of December 31, 2014 RMB'000	As of December 31, 2013 RMB'000	As of December 31, 2012 RMB'000
Assets and liabilities					
Total assets	**8,640,113**	4,966,784	3,640,083	1,708,036	611,618
Total liabilities	**(4,954,178)**	(2,965,233)	(2,015,126)	(1,378,770)	(563,069)
NET ASSETS	**3,685,935**	2,001,551	1,624,957	329,266	48,549
Total equity attributable to equity shareholders of the Company	**3,600,494**	1,921,200	1,603,150	325,028	48,549
Non-controlling interests	**85,441**	80,351	21,807	4,238	—
TOTAL EQUITY	**3,685,935**	2,001,551	1,624,957	329,266	48,549

Note: The financial information of the Group for the period from February 1, 2012 (date of inception) to December 31, 2012 and the year ended December 31, 2013 are extracted from the accountants' report on the financial information of the Group as set out in Appendix IA to the prospectus of the Company dated July 8, 2014.

DEFINITIONS

"Articles of Association"	the amended articles of association of the Company adopted on June 27, 2014 and effected on July 18, 2014 (the Listing Date), as amended from time to time
"Board of Directors" or "Board"	the Board of Directors of our Company
"Broadband Corporation"	Comtech Broadband Corporation Limited, a company incorporated in Hong Kong on March 23, 2005 and our indirect subsidiary owned as to 70%
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, references in this report to the PRC or China do not include Taiwan, Hong Kong or Macau; the term "Chinese" has a similar meaning
"Cogobuy"	Cogobuy Limited, a limited liability company incorporated in Hong Kong on October 6, 2011 and our indirectly wholly-owned subsidiary
"Cogobuy E-Commerce"	Cogobuy.com E-commerce Services (Shenzhen) Limited (庫購網電子商務(深圳)有限公司), a company established in the PRC on July 31, 2012, and our indirectly wholly-owned subsidiary
"Company", "our Company", "the Company"	Cogobuy Group (科通芯城集團), an exempted company incorporated in the Cayman Islands with limited liability on February 1, 2012 and formerly known as Envision Global Group
"Comtech Digital HK"	Comtech Digital Technology (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on February 11, 2010, and our indirectly wholly-owned subsidiary
"Comtech Industrial"	Comtech Industrial (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on April 6, 2009, and our indirectly wholly-owned subsidiary
"Comtech International"	Comtech International (Hong Kong) Limited, a company incorporated in Hong Kong on July 14, 2000 and our indirectly wholly-owned subsidiary
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this annual report, means Mr. Kang and Envision Global
"Director(s)"	the director(s) of our Company
"E&T System"	Shanghai E&T System Company Ltd (上海億特斯自動化控制技術有限公司), a limited liability company established in the PRC on June 5, 2003

"Envision Global"	Envision Global Investments Limited, a limited liability company incorporated in the BVI on February 1, 2012 which is wholly-owned by Mr. Kang and is our immediate Controlling Shareholder
"GAAP"	generally accepted accounting principles
"Gold Tech"	Gold Tech Holdings Limited, a limited liability company incorporated in the BVI on January 25, 2010, and our directly wholly-owned subsidiary
"Group", "our Group", "the Group", "we", "us", or "our"	the Company, its subsidiaries and Shenzhen Cogobuy (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the contractual arrangements) or, where the context requires, the companies that currently comprise the subsidiaries of the Company prior to their acquisition by the Company
"GMV"	Gross Merchandise Value
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards
"IC"	integrated circuits
"IoT"	Internet of Things
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Listing Date"	July 18, 2014, the date the Shares were listed on the Hong Kong Stock Exchange
"Main Board"	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Memorandum"	the amended memorandum of association of the Company adopted on June 27, 2014 and effected on July 18, 2014 (the Listing Date)
"Mr. Kang"	Mr. Kang Jingwei, Jeffrey (康敬偉), Chairman, Chief Executive Officer and Executive Director of our Company and our Controlling Shareholder
"Mr. Wu"	Mr. Wu Lun Cheung Allen (胡麟祥), Chief Financial Officer, Executive Director and Company Secretary of our Company
"Ms. Yao"	Ms. Yao Yi (姚怡), our substantial Shareholder, the sole shareholder of Shenzhen Cogobuy, and the wife of Mr. Li Feng, one of our members of senior management

DEFINITIONS (CONTINUED)

"NASDAQ"	National Association of Securities Dealers Automated Quotations
"RMB"	Renminbi, the lawful currency of PRC
"Reporting Period"	the year ended December 31, 2016
"RSU Scheme"	the scheme adopted by the Company to grant RSUs to directors, senior management and employees and those of subsidiaries which took effect as at March 1, 2014 and amended on December 21, 2014
"RSUs"	Restricted share units
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of our company with a par value of US$0.0000001 each
"Shareholder(s)"	holder(s) of Share(s) of the Company from time to time
"Shenzhen Cogobuy"	Shenzhen Cogobuy Information Technologies Limited (深圳市可購百信息技術有限公司), a limited liability company established in the PRC on December 13, 2012, wholly-owned by Ms. Yao and, by virtue of the contractual arrangements, accounted for as our subsidiary
"SME"	small and medium enterprise
"Total Dynamic"	Total Dynamic Holdings Limited, a limited liability company incorporated in the BVI on December 4, 2012 which is wholly-owned by Ms. Yao and is our Shareholder
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States