Futong 富通

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

(incorporated in the Cayman Islands with limited liability)

Stock Code: 465

Annual Report

2017

企业级信息产品及解决方案提供商

Contents

Chairman's Statement

TO OUR SHAREHOLDERS,

On behalf of the Board of Directors of Futong Technology Development Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), I am pleased to present to all shareholders the annual results of the Group for the year ended 31 December 2017 (the "**Year**").

In 2017, IT companies in China continued to accelerate development and transformation, directing efforts into areas including the Internet, cloud computing and Big Data, so as to satisfy the need of enterprise clients to adopt and use digital technology to transform their businesses and operations. While technologies evolving constantly, the enterprise IT market is also hard to predict. Customers' demand for traditional services and products is changing and actually shrinking. Facing such a challenging market environment, the Group made stronger effort during the year to transform its business, while continuing to ensure stable development of its traditional business, so as to boost the total revenue of the Group, with cloud computing and own brand services especially managing higher growth.

During the Year, we continued to optimize our comprehensive suite of value-added services, achieving satisfactory progress in upgrading the Group's own brand products and solutions, and proprietary technologies. The Group formally joined the China Cloud Computing Service Alliance (the "**Alliance**") and has been named a director unit of the Alliance. "CloudoorSphere", our proprietary private cloud product for enterprises, was also certified as a trustworthy cloud solution by the China Academy of Information and Communications Technology and Open Source Cloud Alliance for Industry. And, it and CloudoorManagement another cloud product developed by the Group, were included on the 2017 list of software for purchase tender of central government entities. We are greatly encouraged by these achievements.

For its traditional IT integration business, the Group consolidated the advantages of its professional integrated services and used its extensive distribution channels to speed up transformation of resources during the Year. Building on that, the Group began cooperation with leading technology enterprises at home and abroad, such as IBM, Oracle, AWS and Huawei, in the areas of business intelligence and cloud computing, among others. Our objectives are to provide under the cloud management service banner professional commercial technology and abundant data capacity, to bring in more talent from the digitalization and Smart Technology arenas and be better prepared in terms of technological competence, to provide highly functional and reliable value-added solutions to mainland enterprises to help them transform their business and operations through digitalization, and to provide multi-layer protection to ensure enterprise clients can operate in and maintain a safe cloud computing environment.

In the future, with the distributed hyper-converged infrastructure taking center stage and enterprise clients in China taking transformation via digitalization to ever greater depths, clients are expected to go light on investing in equipment and devices and increase investment in new technological applications and services in the transformation process. Heeding that, the Group will focus on strengthening its proprietary products, intelligent applications and operational, maintenance and service capabilities to match requirement in the new IT environment. Furthermore, capitalizing on advancements made by its subsidiaries in their corresponding professional areas, and with Futong Cloud Technology Co., Ltd. as the core platform, the Group will launch a professional enterprise cloud computing business that offers cloud products, cloud management solutions and maintenance service for cloud operation management. Together with Beijing Futong Dongfang Technology Co., Ltd. in charge, the Group will focus on intelligent applications for digitalization, system integration and professional service for maintenance of system operation, so as to provide highly efficient applications, services and solutions to enterprise clients going through digital transformation. And, building on the basis of the Group's enterprise commercial distribution business with top technology companies, domestic and overseas, in Mainland China, Futong Times Technology Co., Ltd. will be leading the strengthening of cooperation with those partner companies in other enterprise product markets such as business intelligence, cloud computing and big data.

In 2018, facing an ever-more rapidly changing IT market and evolving technologies, the Group will integrate its business and human resources structures of its member companies and focus on developing professional business areas. Capitalizing on its more than 20 years' industry experience and its strengths built up over the years, plus the brace of corporation with global commercial and technological partners, the Group will step up effort to transform its business, build a premium image as a enterprise IT technology brand, offer more professional technology services to mainland enterprises and assist customers in transforming their business through digitalization, all to the ultimate end of turning itself into an industry-leading enterprise IT service provider.

Finally, I would like to take this opportunity to express my sincere gratitude to member companies and our professional teams for their dedicated efforts and contribution in the past year, and also to all our shareholders for their unfaltering trust and support.

Chen Jian
Chairman

Hong Kong, 23 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

The Group specialises mainly in providing enterprise IT infrastructure products, cloud products, cloud services, corporate applications and solutions in the People's Republic of China ("**PRC**") and is an industry leader in its field. It also undertakes research, development and sale of a series of its own brand enterprise IT products. Globally renowned enterprises such as IBM, Huawei and Oracle, etc., have been important long-standing partners of the Group.

Sales of IBM products

For the year ended 31 December 2017 (the "**Year**"), the revenue from sales of IBM's hardware and software products (including enterprise servers, system storage products and software, often bundled with value-added services) amounted to approximately RMB768.0 million (2016: approximately RMB865.9 million). The slight decrease in revenue from sales of IBM products as compared with last year was mainly due to a decline in market demand for IBM enterprise level infrastructure servers. IBM itself has been adjusting its business globally, making deployment to prepare for the development of cognitive service business. Nonetheless, the Group expects the proportion of its sales of IBM products remain stable among similar IBM products. In addition, the Group looks forward to cooperating with IBM in the cognitive service field in the future.

Sales of IBM products and provision of related services remained a major, though no longer the primary, revenue generator of the Group, accounting for approximately 21.0% of the Group's total revenue for the Year (2016: approximately 25.2 %).

Sales of Huawei products

During the Year, the distribution business of Huawei products (sale of servers, storage and cloud computing products) continued to record strong growth and was the major revenue generator of the Group for the second consecutive year. In the Year, it recorded a 31.3% increase in revenue, or RMB404.2 million, to approximately RMB1,696.9 million (2016: approximately RMB1,292.8 million). The amount accounted for approximately 46.3% of the Group's total revenue for the Year (2016: approximately 37.6%). The continual growth in revenue was owed to Huawei's determination to increase its market share in recent years, by strengthening its already formidable distribution network and rallying end-customers with highly competitive product prices. However, since the business is in the traditional low profit margin distribution category, the Group worked hard during the Year to strike a balance between capital allocation and growing the business.

Sales of Oracle products

For the Year, revenue from sales of Oracle products and related services (including database management software, middleware for application servers and systems products) amounted to approximately RMB495.0 million (2016: approximately RMB428.0 million), an increase of 15.7% as compared with the corresponding period of 2016. The amount accounted for approximately 13.5% of the Group's total revenue (2016: approximately 12.4%). Oracle products enjoy market leadership, and in recent years, the company has shifted its focus to cloud business in the global market. The Group has also increased investment in cloud business, hence also recorded notable growth in revenue from the particular type of products.

Sales of other products

Other sources of revenue of the Group included sales of products of Sugon, Lenovo, EMC, SAP, VMware, the Group's own-brand products and other IT products and accessories. Revenue from these income sources amounted to approximately RMB391.3 million, a decrease of approximately RMB182.0 million, or 31.7% (2016: approximately RMB573.3 million). Among the different products sold in this category, Sugon products sales declined by RMB116.8 million, or 29.7%, to approximately RMB276.4 million. Sales of other products accounted for approximately 10.7% of the Group's total revenue (2016: approximately 16.7%). During the Year, the Group focused on developing its own brand products as well as targeting at transforming its businesses. It will direct resources and increase investment in digitalisation business like cloud computing products, Artificial Intelligence, corporate application and related services in the future.

Provision of services

Revenue from provision of services amounted to approximately RMB311.7 million (2016: approximately RMB281.2 million), representing approximately 8.5% of the Group's total revenue (2016: approximately 8.2%). During the Year, the Group put more resources into developing digitalization transformation solutions for corporate customers thereby strengthened its capabilities to help customers transform their businesses.

FINANCIAL REVIEW

Revenue

For the Year, revenue of the Group increased by approximately RMB221.7 million or 6.4% as compared with the corresponding period in 2016, to approximately RMB3,662.9 million (2016: approximately RMB3,441.2 million). The increase was mainly due to increases in sales of products of Huawei and Oracle. Huawei continued its aggressive approach by offering competitive price to end users to seize market share from both international brands and local competitors whilst Oracle still enjoyed the increase demand in its industry-leading products.

Gross profit

Gross profit of the Group reduced by approximately RMB24.8 million or 10.0% to approximately RMB222.0 million for the Year (2016: approximately RMB246.8 million) while gross profit ratio decreased from 7.2% to 6.1%. The drop in gross profit ratio was mainly contributed by the increase in number of domestic brand products with lower profit margin, the discontinuance of certain sales programmes by a supplier in second half of 2016 that led to a reduction of rebate received by the Group in 2017 and the increase in provision of obsolete stocks relating to certain aged stocks (over 2 years) which are no longer economically saleable due to the technological improvement in new products.

Other income, other gains and losses

This comprises of mainly interest income from bank deposits, government grants, foreign exchange losses and impairment loss on trade receivables. For the Year, net losses from other income, other gains and losses amounted to approximately RMB14.7 million (2016: net loss of approximately RMB5.2 million), representing an increase in net loss of approximately RMB9.5 million. This increase was mainly due to the increase in provision of doubtful debt following a more prudent approach adopted by management in tightening the recovery time before commencing legal proceedings on long outstanding debts and the increase in exchange loss.

Selling and distribution expenses

For the Year, selling and distribution expenses of the Group amounted to approximately RMB139.5 million (2016: approximately RMB134.6 million), representing an increase of approximately 3.6% compared with the corresponding period in 2016. The increase was basically in line with the rate of increase in revenue and was mainly due to the combined effect of the rise in staff costs with salary increments in line with general inflation and maintaining remuneration packages competitive in the market and the increase in shipping expenses.

Administrative expenses

Administrative expenses of the Group for the Year amounted to approximately RMB51.9 million (2016: approximately RMB47.1 million), representing 10.2% increase as compared with the corresponding period in 2016. The increase was mainly due to the increase in research and development cost for the development of our own brand products as part of the expenditure has been capitalized in 2016, the non-recurring professional fees incurred on the communication with The Stock Exchange of Hong Kong, and one off compensation cost incurred under the streamlining exercise of the Group on laying off staffs working primarily on the sales programmes being discontinued by a supplier in second half of 2016.

Finance costs

Finance costs of the Group increased by approximately RMB12.2 million or 36.8% from approximately RMB33.1 million for the year ended 31 December 2016 to approximately RMB45.3 million for the Year. The increase was mainly due to increase in the utilization of funds advanced by non-financial institutions with higher interest rates as compared to that of the corresponding period in 2016.

Income tax expense

Income tax expenses of the Group increased by approximately RMB2.3 million or 27.5% from approximately RMB8.3 million for the year ended 31 December 2016 to approximately RMB10.5 million for the Year. It was mainly due to combined effect of one of the group companies incurred profit for the Year and the reversal of deferred tax assets related to the tax loss of a subsidiary because of its unpredictability of future profit stream.

Loss for the year attributable to owners of the Company

For the Year, the loss attributable to owners of the Company amounted to approximately RMB39.9 million (2016: profit attributable to owners approximately RMB17.7 million). The loss was primarily due to the combined effects of (i) the reduction of rebate received by the Group in 2017 (ii) increase in provision of obsolete stocks and doubtful debts and (iii) increase in finance costs as mentioned above. Although there was short term impact to the earnings, the more prudent approach adopted on the valuation of stocks and assessment on the recoverability of accounts receivable ensures a high quality of Group's assets.

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2017, the Group had total assets of approximately RMB1,656.8 million and net assets of approximately RMB536.4 million (31 December 2016: approximately RMB2,166.6 million and approximately RMB581.6 million, respectively). In respect of the trade receivables of the Group amounted to approximately RMB772.8 million (31 December 2016: approximately RMB1,147.3 million), net of allowance for doubtful debts of approximately RMB62.4 million (31 December 2016: approximately RMB48.6 million), the management will perform a regular review and implement stringent control measures on trade receivables with a view to ensuring the recovery of trade receivables on the due dates and closely monitoring the Group's liquidity. The Group's bank balances and cash amounted to approximately RMB237.2 million as at 31 December 2017 (approximately RMB172.6 million as at 31 December 2016). Bank and other borrowings amounted to approximately RMB483.9 million (31 December 2016: approximately RMB603.7 million). Taking into account the cash on hand and recurring cash flow from its business, the Group's financial position remained healthy and was sufficient to achieve its business objectives.

As at 31 December 2017, approximately 63.8% (31 December 2016: approximately 11.1%) of total borrowings were at fixed interest rates.

As at 31 December 2017, the borrowings of the Group were advanced in RMB and USD while cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

Pledge of Assets

As at 31 December 2017, certain assets of the Group with carrying value of approximately RMB156.3 million (31 December 2016: approximately RMB244.6 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

Net Debt-To-Capital Ratio

The Group's net debt-to-capital ratio as at 31 December 2017 was approximately 26.5% (as at 31 December 2016 was 53.0%). This ratio was calculated as total borrowings less bank balances and cash, and relevant pledged deposits divided by total equity.

FOREIGN EXCHANGE EXPOSURE

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

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

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: the payment of a final dividend of HK1.9 cents per share).

CLOSURE OF REGISTER OF MEMBERS

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

To determine the identity of shareholders who are entitled to attend and vote at the 2018 AGM

Latest time for lodging transfers:	4:30 p.m. on Monday, 14 May 2018
Closure of register of members:	Tuesday, 15 May to Friday, 18 May 2018 (both dates inclusive)
Record date:	Friday, 18 May 2018
Date of 2018 AGM:	Friday, 18 May 2018

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

In order to be eligible for attending and voting at the 2018 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than the latest time for lodging transfers as stated above.

ANNUAL GENERAL MEETING

The 2018 AGM of the Company will be held on Friday, 18 May 2018. Notice of 2018 AGM will be published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company and dispatched to the shareholders of the Company in due course.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had 435 (31 December 2016: 499) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB115.9 million (2016: approximately RMB119.3 million).

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

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

After deducting share issuance expenses, the net proceeds from the initial public offering of the Company's shares in December 2009 amounted to approximately RMB102.1 million. As at 31 December 2017, the Group had used approximately RMB10.7 million for setting up new branch offices, approximately RMB25.5 million for sourcing new enterprise IT products, approximately RMB15.3 million for establishment and expansion of IT solution support centers, approximately RMB10.2 million for setting up of training centers, approximately RMB10.2 million for general working capital purposes of the Group, and approximately RMB30.2 million for the investment in research and development of self-branded software and hardware enterprises IT products, which also covers the investment in the promoting and marketing of these products. All the remaining proceeds from the initial public offering have been utilised by the Group during the year ended 31 December 2017.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

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

IMPORTANT EVENTS SUBSEQUENT TO THE FINANCIAL YEAR

The Directors are not aware of any important events affecting the Company that have occurred since the end of the financial year.

OUTLOOK

In 2017, with macroeconomic conditions generally improving, China's information technology (IT) enterprises continued to shift their strategic direction to Internet+, cloud computing, artificial intelligence (AI) and big data. During the year under review, certain customers whose business was affected by various factors remained prudent about large-scale infrastructure procurement. Consequently, high value sales orders were uncommon to the Group. Competition in homogenous products in the market also became more intense. Despite such difficult operating conditions, the Group was able to seize opportunities and achieve robust sales performance from its domestic and overseas brand products, cloud computing products and system integration services, allowing it to maintain sales revenue growth.

Driven by market transformation, the Group has consolidated its main businesses into three segments, with the first segment comprising own branded cloud products that the Group has continued to invest in. As cloud computing matures and becomes more and more popular worldwide, China's cloud computing market has also seen rocketing growth in recent years. These developments have prompted the Group to strategically focus on developing its own brand cloud products, solutions and cloud services. Despite the relatively small proportion of own branded cloud products found in the Group's existing overall businesses, the business segment remains an important element of its asset portfolio as it reflects the Group's capacity to innovate independently, which also demonstrates immense market potential and strong growth in the foreseeable future. The second business segment of the Group consists of intelligent digitalized applications and system integration service. The Group continues to grow the business and offer integrated IT solutions and services to customers. Driven by customers' pursuit of transformation through digitalization, the Group commenced development of digitalized intelligent applications. The move will allow the Group to facilitate employment of digital technologies to transform their business. Braced by emerging and advanced IT technologies, the Group is able to more comprehensively serve customers at the business end. The Group's third business segment covers distribution of traditional enterprise-grade information technology products, serving leading domestic and overseas IT enterprises including IBM, Oracle and Huawei, with whom the Group cooperates intensively. Such ties work in favor of the Group in exploring cooperative opportunities in the advanced technology sector and enable it to maintain its function and role as a technology pioneer while growing its businesses. Meanwhile, with the determination to improve the profit margin of distribution business, the Group will enhance its existing product portfolio by reducing or terminating the sales of products with low profit margin.

The development of new technologies such as cloud computing, artificial intelligence and big data has had an immense impact on people from all walks of life, and an even more profound influence on the IT distribution industry. With increasingly intense competition in the traditional IT distribution sector, the traditional business applications and system integration businesses have been hard hit. Pursuing digital transformation means customers have to integrate digital technologies into their business. To achieve that, they not only require the support of traditional IT provisions, but also professional advice and assistance with respect to products and solutions that can help them with development of new technologies. The Group is fully cognizant of such market developments. Going forward, the Group will continue to make adjustments in its business direction and resources, with the aim of providing products and services that address customers' needs and which align with the most recent trends. The Group will ensure that it can provide the necessary IT support to customers during this age of digital transformation and by so doing, further strengthen cooperative ties with its existing customers.

The Group believes that development of cloud computing products, digital smart applications and related services is not only important in addressing customers' demands, but also is a top priority for traveling on the road to business transformation. The Group has made crucial progress in the development of cloud computing products. At the same time, the Group has forged cooperative ties with domestic and overseas cloud resources suppliers such as Oracle, AWS and Huawei. Through these partnerships, the Group will be able to provide cloud infrastructure products for customers in China's cloud computing market. It will also partner with cloud service providers to deliver customers and independent software developers with business support and services according to various cloud computing scenarios. Furthermore, the Group will commence with a digital smart application business pinpointing the needs of specific industries in order to support customers' new application business during their digital transformation period.

The management of the Group knows well that the path towards business transformation is difficult, which takes time and relentless hard work. The Group will firmly push forward with achieving its own transformation goals aiming for steady progress and closely watch related costs so as to protect the overall interest of shareholders.

Directors and Senior Management Profile

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian (陳健先生), aged 57, has been appointed as an executive Director and chairman of the Company and he is one of the co-founders of the Group. He was appointed a member of Remuneration Committee and Nomination Committee of the Company on 5 February 2018. Mr. Chen is also the director of all subsidiaries of the Company, including Futong Technology Co. Ltd. ("**Futong BVI**"), Etong Technology Holdings Limited, Futong Technology (HK) Company Limited, Futong Technology Development Holdings (HK) Limited, Futong Cloud Technology (HK) Company Limited, Futong Transcend Technology (HK) Company Limited, Beijing Futong Dongfang Technology Co., Ltd. ("**Futong Dongfang**"), Futong Times Technology Co., Ltd. ("**Futong Times**"), Beijing Etong Dongfang Technology Co., Ltd. ("**Etong Dongfang**"), Futong Cloud Technology Co., Ltd ("**Futong Cloud**") and Futong Transcend Technology Co., Ltd. ("**Futong Transcend**") which are subsidiaries of the Company. Mr. Chen is responsible for the strategic development and the Group's business direction, and overseeing the self-developed products business. He has over 28 years of experience in IT industry. Mr. Chen graduated from 中國人民解放軍通信工程學院 (Chinese People's Liberation Army Communication Engineering University) with a bachelor's degree in wireless communications engineering. He is the brother-in-law of Ms. Zhang Yun, a previous executive Director who resigned on 17 November 2017.

Ms. Chen Jing (陳靜女士), aged 49, joined the Group in 2005. She is the vice president of Futong Dongfang, and the director of all subsidiaries of the Company. She is responsible for overseeing the day-to-day operations of the Group's sales management department, logistics management department, IT management department, human resources department and public relations department. She graduated from Beijing Union University (北京聯合大學) with a bachelor degree majoring in mechanical engineering.

Independent non-executive Directors

Mr. Chow Siu Lui (鄒小磊先生), aged 58, was appointed as an independent non-executive Director on 1 December 2016. He is a partner of VMS Investment Group, which is a multi-strategies investment house. Mr. Chow was formerly the chairman of the Mainland Development Strategies Advisory Panel of the Hong Kong Institute of Certified Public Accountants and is currently a member of the Investment Advisory Committee of the Hong Kong Institute of Chartered Secretaries. Previously, he was a member of both of the Listing Committee of the Stock Exchange and the Dual Filing Advisory Group of the Securities and Futures Commission. Mr. Chow is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Mr. Chow had been working with one of the four largest certified public accounting firms in the world as a partner for many years. He has an in-depth knowledge on the accounting standards and business regulations in Hong Kong. Mr. Chow has been serving as an independent non-executive director of Fullshare Holdings Limited (stock code: 00607), Universal Medical Financial & Technical Advisory Services Company Limited (stock code: 02666), Sinco Pharmaceuticals Holdings Limited (stock code: 06833), China Everbright Greentech Limited (stock code: 01257) and Shanghai Dazhong Public Utilities (Group) Co., Ltd. (stock code: 01635), the shares of which are listed on the Stock Exchange. He was an independent non-executive director of Kong Shum Union Property Management (Holding) Limited (stock code: 08181) from February 2015 to October 2015 and NWS Holdings Limited (stock code: 00659) from March 2012 to June 2012.

Mr. Yuan Bo (袁波先生), aged 55, was appointed as an independent non-executive Director on 5 November 2009. He is the founder and managing director of 百碩同興科技(北京)有限公司 (Bayshore Consulting and Services Co., Ltd.). Mr. Yuan graduated from 清華大學 (Tsinghua University) with a master degree, majoring in economics. He was the general manager of China Business Partner Operation Division of 國際商業機器(中國)投資有限公司 (IBM (China) Investment Co., Ltd.) in 1998. He also served as the chief executive officer of Hi Sun Technology Holding Limited (a subsidiary of Hi Sun Technology (China) Limited, shares of which are listed on the Stock Exchange) in 2002. He was a non-executive director of Geong International Limited, a company whose shares are listed on the London Stock Exchange.

Mr. Lo Kwok Kwei David (羅國貴先生), aged 58, is a partner in a law firm in Hong Kong and has been practising as a solicitor in Hong Kong for over 30 years. Mr. Lo holds the degrees of Bachelor of Laws and Bachelor of Jurisprudence from the University of New South Wales, Australia. He was admitted as a solicitor of the Supreme Court of New South Wales, Australia in 1984. Mr. Lo has been a member of The Law Society of Hong Kong since 1987. Mr. Lo is currently an independent non-executive director of each of eSun Holdings Limited (stock code: 00571) and Man Yue Technology Holdings Limited (stock code: 00894). In addition, he was an independent non-executive director of ENM Holdings Limited (stock code: 00128) from June 2010 to June 2016. All the above companies are listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Zhao Wei (趙偉先生), aged 46, joined the Group in 2003. He was appointed as the chief executive officer ("**CEO**") of the Company on 17 November 2017 and he is also the vice president of Futong Dongfang. Mr. Zhao is responsible for business operations and management of the Group. He graduated from 北京理工大學 (Beijing Institute of Technology), majoring in electronic appliances.

Mr. Kong Kai Chuen Frankie (江啟銓先生), aged 54, joined the Group in October 2017. He was appointed as the chief finance officer and company secretary of the Company on 17 November 2017. Mr. Kong is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants (UK). He has accumulated over 26 years' experience in accounting, auditing, corporate finance and project administration mostly from Hong Kong listed companies and multinational business conglomerates.

Mr. Qian Ruo Chen (錢若塵先生), aged 45, joined the Group in 2012. He is the vice president of Futong Times. He is responsible for overseeing the day-to-day operations of the business unit of Huawei of the Group. He graduated from 北京科技大學 (University of Sciences and Technology Beijing).

Mr. Xie Hui (謝輝先生), aged 48, joined the Group in 2005. He is the vice president of Futong Dongfang and one of the co-founders of the Group. He is responsible for overseeing the day-to-day operations of the Group's business for domestic-branded servers and products. He graduated from 北京航空航天大學 (Beihang University), majoring in mechanical and electrical engineering.

Mr. Jin Wei (金微先生), aged 43, joined the group in 2014. He is the vice president of Futong Dongfang and the chief technical officer of the Group. He is responsible for overseeing the day-to-day operations of the Group's self-developed products, IT technical and solutions business and also in charge of the marketing department. Mr. Jin graduated from 上海同濟大學 (Shanghai Tongji University) and obtained a bachelor's degree in Computer Science.

Mr. Ma Yan (馬岩先生), aged 39, joined the Group in 2012, and appointed as the financial controller of Futong Times in 2015. He obtained a bachelor degree in Accounting from the Beijing University of Technology, China. He is a member of the Chinese Institute of Certified Public Accountant. Prior to joining the Group, Mr. Ma worked as a practicing accountant in Deloitte Touche Tohmatsu for over 8 years in China.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Board is also responsible for performing the corporate governance function of the Company. During the year ended 31 December 2017, the Board has performed the duties and monitored the Company's compliance with the Corporate Governance Code and Corporate Governance Report as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange ("**CG Code**"). The Board has also reviewed the Company's policies and practice on corporate governance.

COMPLIANCE WITH THE CG CODE

During the year ended 31 December 2017, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the CG Code.

THE BOARD OF DIRECTORS

Responsibilities of the Board

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

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

The Board has also established three board committees, namely, the Audit Committee (the "**Audit Committee**"), the Remuneration Committee (the "**Remuneration Committee**") and the Nomination Committee (the "**Nomination Committee**"), and delegated to these Board committees certain specific responsibilities as set out in their respective written terms of reference approved by the Board. Further details of these Board committees are set out under the heading "Board Committees".

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

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

Composition of the Board

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

Executive Directors

Mr. Chen Jian *(Chairman) (resigned on 10 April 2017 and re-appointed on 5 July 2017)*
Ms. Chen Jing *(appointed on 10 April 2017)*

Independent non-executive Directors

Mr. Chow Siu Lui
Mr. Yuan Bo
Mr. Lo Kwok Kwei David *(appointed on 5 February 2018)*

Mr. Chen Jian is the Chairman of the Board, while Mr. Zhao Wei is the CEO of the Company. Mr. Zhao Wei was appointed as CEO of the Company on 17 November 2017. As such, the roles of the Chairman and CEO are separate and exercised by different individuals.

On 18 November 2017, Mr. Lee Kwan Hung resigned as an independent non-executive Director as he wishes to spend more time with his other engagements. Following Mr. Lee's resignation, the Company had only two independent non-executive Directors and the Audit Committee had only two members, which fell below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules. On 5 February 2018, Mr. Lo Kwok Kwei David has been appointed as independent non-executive Director and member of the Audit Committee. Following the appointment of Mr. Lo, the Company has three independent non-executive Directors and the Audit Committee comprises three independent non-executive Directors, which fulfills the requirements under Rules 3.10(1) and 3.21 of the Listing Rules. Save as disclosed above, during the year ended 31 December 2017, the Board's composition has satisfied the requirements of Rule 3.10 and 3.10(A) of the Listing Rules, which stipulate that there should be at least three independent non-executive Directors (representing at least one-third of the Board), and of whom at least one possess appropriate professional qualifications or accounting or related financial management expertise.

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

The biographies of the Directors and their relationship with each other are set out under the section headed "Directors and Senior Management Profile" on pages 11 to 13 of this annual report.

Appointment and Re-election of Directors

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the year ended 31 December 2017.

Board Meetings

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

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

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

Induction and Continuing Development of Directors

Each newly appointed Director would receive an induction package covering the statutory and regulatory obligation of a director of a listed company. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills in their roles as directors pursuant to code provision A.6.5 of the CG Code. Attendance to any professional courses recognized by registered professional bodies such as The Law Society of Hong Kong, the Hong Kong Institute of Certified Public Accountants, and The Hong Kong Institute of Chartered Secretaries, etc., are recognised by the Company for this purpose. The Directors are also provided with materials from time to time to keep afresh of the latest legal and regulatory changes to enable them to discharge their duties.

The individual training record of each director received for the year ended 31 December 2017 is summarised below:

Name of Director	Briefs and updates on the business, operations and corporate governance matters	Attending seminars, workshops or exhibitions relevant to the business or directors' duties
Executive Directors		
Mr. Chen Jian *(resigned on 10 April 2017 and was re-appointed on 5 July 2017)*	✓	✓
Ms. Chen Jing *(appointed on 10 April 2017)*	✓	✓
Ms. Zhang Yun *(resigned on 17 November 2017)*	✓	✓
Independent non-executive Directors		
Mr. Chow Siu Lui	✓	✓
Mr. Yuan Bo	✓	✓
Mr. Lee Kwan Hung *(resigned on 18 November 2017)*	✓	✓

BOARD COMMITTEES

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

Audit Committee

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

The principal roles and functions of the Audit Committee are:

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

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

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

The Audit Committee held six meetings during the year ended 31 December 2017, at which the financial results and reports, financial reporting and compliance procedures, risk management and internal control matters and the independence and the appointment of the external auditors were reviewed and discussed.

Remuneration Committee

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

The principal roles and functions of the Remuneration Committee are:

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

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

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

The Remuneration Committee held three meetings during the year ended 31 December 2017 to review the remuneration packages of the Directors and senior management. Members of the Remuneration Committee were abstained from voting on resolutions related to his own remuneration package in the meeting.

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

Nomination Committee

The Nomination Committee was established on 11 November 2009 with written terms of reference approved by the Board. As at the date of this annual report, the Nomination Committee comprises all three independent non-executive Directors, namely Mr. Chow Siu Lui (chairman of the Nomination Committee), Mr. Yuan Bo and Mr. Lo Kwok Kwei David and one executive Director, Mr. Chen Jian, who is also the chairman of the Company.

The principal roles and functions of the Nomination Committee are:

- to review the structure, size and diversity of the Board;

- to identify and nominate Board candidates for directorship;

- to assess the independence of the independent non-executive Directors; and
- to make recommendations to the Board on matters relating to the appointment, re-appointment, and succession planning for Directors in particular the chairman and chief executive officer.

The Nomination Committee held three meetings during the year ended 31 December 2017, to review the nomination procedures and process for the nomination of Directors, the structure, size and diversity of the Board, assess the independence of the independent non-executive Directors and make recommendation to the Board on reappointment of Directors.

Summary of Board Diversity Policy

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

With reference to the business needs of the Group, the following measurable objectives have been set for implementing the Board diversity policy: (a) a prescribed proportion of Board members shall be non-executive Directors or independent non-executive Directors; (b) a prescribed proportion of Board members shall have attained bachelor's degree or above; (c) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications; (d) a prescribed proportion of Board members shall have more than seven years of experience in the industry he is specialized in; and (e) a prescribed proportion of Board members shall have China-related work experience. Based on the review by the Nomination Committee, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the Board diversity policy of the Company for the year under review.

ATTENDANCE RECORDS AND MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2017 are set out as below:

No. of meetings	General meeting(s)	Board meetings	Audit committee meetings	Remuneration committee meetings	Nomination committee meetings
Executive Directors					
Mr. Chen Jian (note 1)	0/0	7/7	N/A	1/1	0/0
Ms. Chen Jing (note 2)	1/1	9/11	N/A	N/A	N/A
Ms. Zhang Yun (note 3)	1/1	11/13	N/A	1/2	3/3
Independent non-executive Directors					
Mr. Chow Siu Lui	1/1	11/13	6/6	3/3	3/3
Mr. Yuan Bo	1/1	11/13	5/6	3/3	3/3
Mr. Lee Kwan Hung (note 4)	1/1	9/13	6/6	3/3	3/3

Notes:

1. Mr. Chen Jian resigned as executive Director on 10 April 2017 and was appointed again as executive Director on 5 July 2017. He was appointed as a member of each of the Nomination Committee and Remuneration Committee on 5 February 2018.

2. Ms. Chen Jing was appointed as executive Director on 10 April 2017.

3. Ms. Zhang Yun resigned as executive Director on 17 November 2017.

4. Mr. Lee Kwan Hung resigned as independent non-executive Director, a member of each of the Audit Committee, Nomination Committee and Remuneration Committee on 18 November 2017.

COMPANY SECRETARY

Mr. Kong Kai Chuen Frankie was appointed as the company secretary of the Company on 17 November 2017. The biographical details of Mr. Kong are set out under the section headed "Senior Management". He has taken not less than 15 hours of relevant professional training during the year ended 31 December 2017.

EXTERNAL AUDITORS

BDO Limited has been appointed as the external auditors of the Company for the year ended 31 December 2017. The Audit Committee has the same view with the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

For the year ended 31 December 2017, the total remuneration in respect of services provided by the external auditors of the Company amounted to approximately RMB1,880,000, which can be analysed as follows:

	RMB'000
Audit services	1,680
Interim review services	200

INTERNAL CONTROL, RISK MANAGEMENT AND FINANCIAL REPORTING

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

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

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

In relation to the procedures and internal controls of the Group for the handling and dissemination of inside information during the year under review, employees or Directors possessing such inside information should report the same to the executive Directors, who will in turn report to the Board. The Board will then discuss and handle the relevant disclosures or dissemination of inside information accordingly.

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

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

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

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

The reporting responsibility of the external auditors on the Group's consolidated financial statements are set out in the section headed "Independent Auditor's Report" on pages 51 to 56 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

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

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

SHAREHOLDERS' RIGHTS

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

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

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

CONSTITUTIONAL DOCUMENTS

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

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 30 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 57 to 118 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: a final dividend of HK1.9 cents per share).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years is set out on page 119 of this annual report.

SUPPLEMENTAL INFORMATION FOR BUSINESS REVIEW

A fair review of the Group's business, particulars of important events affecting the Group that have occurred during the financial year, an analysis using financial key performance indicators and an indication of likely future development in the Group's business are set out in "Management Discussion and Analysis" section with headings "Business Review", "Financial Review" and "Outlook" on pages 4 to 5, pages 5 to 7 and pages 9 to 10 of this annual report, respectively. An "Environmental, Social and Governance Report" is included on pages 39 to 50, which included a discussion on the Group's environmental policies and performance, the key relationships with its employees, customers and suppliers and others that have a significant impact on the Group.

Principal Risks and Uncertainties Facing the Group

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

Reliance on a small number of key suppliers and products

The Group is an authorized distributor of certain enterprise IT products in the PRC for such as IBM, Huawei and Oracle. The Group's five largest suppliers (on group basis) accounted for approximately 88.0% and 82.4% of the Group's total purchases for each of the years ended 31 December 2017 and 31 December 2016, respectively.

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

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

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

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

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

Inventory risks

The inventory of the Group consists mainly of enterprise IT products and other components. These comprised approximately 19.4% and 20.6% of the Group's current assets as at the years ended 31 December 2017 and 31 December 2016 respectively.

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

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

Trade, bills and other receivables and liquidity risks

Trade, bills and other receivables accounted for approximately 54.7% and 58.5% of the Group's total assets as at the years ended 31 December 2017 and 31 December 2016 respectively. There may be a risk of delay in payment by the Group's customers from their respective credit period, which in turn may result in an impairment loss provision. There is no assurance that the Group will be able to fully recover its receivables from the customers or their settlements are made on a timely manner. In the event the settlements from the customers are not made in full or not on a timely manner, the financial position, profitability and cash flow of the Group may be adversely affected.

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

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

Foreign exchange considerations

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

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

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

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

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

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

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

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

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

Compliance with the Relevant Laws and Regulations

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26(a) to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

The service agreements entered into by the Company with each of the executive Directors, which are currently in force and were in force during the year ended 31 December 2017, contain permitted indemnity provisions for the benefit of the executive Directors.

Under the Articles, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors throughout the year under review and as at the date of this report, pursuant to which every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

In addition, the Company has also taken out and maintained directors' liability insurance during the year which provides appropriate cover for the Directors and directors of the subsidiaries of the Company.

During the year ended 31 December 2017, no claims were made against the Directors.

MANAGEMENT CONTRACTS

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

PURCHASE, SALE AND REDEMPTION OF THE SHARES

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 59 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to approximately RMB308.7 million.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2017 are set out in note 24 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers, on individual entity basis, accounted for approximately 13.5% of the total revenue for the year and sales to the largest customer, on individual entity basis, included therein amounted to approximately 3.6%. Purchases from the Group's five largest suppliers, on individual entity basis, accounted for approximately 88.0% of the total purchases for the year and purchases from the largest supplier, on individual entity basis, included therein amounted to approximately 45.6%.

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

DIRECTORS

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

Executive Directors
Mr. Chen Jian *(Chairman) (resigned on 10 April 2017 and re-appointed on 5 July 2017)*
Ms. Chen Jing *(appointed on 10 April 2017)*
Ms. Zhang Yun *(resigned on 17 November 2017)*

Independent non-executive Directors
Mr. Chow Siu Lui
Mr. Yuan Bo
Mr. Ho Pak Tai Patrick *(resigned on 1 January 2017)*
Mr. Lee Kwan Hung *(resigned on 18 November 2017)*
Mr. Lo Kwok Kwei David *(appointed on 5 February 2018)*

According to article 105 of the Company's Articles, not less than one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Ms. Chen Jing will retire as Director and, being eligible, offer herself for re-election as Director at the 2018 AGM.

According to article 109 of the Company's Articles, any Director appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at such meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting. Mr. Chen Jian (who was appointed as an executive Director by the Board with effect from 5 July 2017) and Mr. Lo Kwok Kwei David (who was appointed an independent non-executive Director by the Board with effect from 5 February 2018), will retire as Directors and, being eligible, offer themselves for re-election as Directors at the 2018 AGM.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 11 to 13 of this annual report.

DIRECTORS' SERVICE AGREEMENT

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

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

Details of Directors' remuneration are set out in note 12 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACT

Details of the connected transactions and the related party transactions are set out on pages 36 to 37 and pages 109 to 112 of this annual report respectively, and the management confirmed that all disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied. Save for the above, no other Director or entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

Name of Director	Capacity/nature of interest	Number of Ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jian	Beneficial owner/interest in controlled corporations	219,208,000 (Notes 1, 2, 3, 4 and 5)	70.43
Chen Jing	Beneficial owner	238,000 (Note 6)	0.08
Zhao Wei	Beneficial owner	150,000 (Note 7)	0.05

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

Name of Director	Capacity/nature of interest	Number of underlying shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jing	Beneficial owner	400,000 (Note 8)	0.13
Yuan Bo	Beneficial owner	600,000 (Note 8)	0.19
Zhao Wei	Beneficial owner	400,000 (Note 8)	0.13

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

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

Notes:

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

2. 28,421,100 of these shares are held by Rich China Investments And Trading Ltd., the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by Rich China Investments And Trading Ltd..

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

4. 14,210,550 of these shares are held by Long Joy Group Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by Long Joy Group Limited.

5. 1,194,000 shares of the Company are held by Mr. Chen Jian in his personal interest.

6. 238,000 shares of the Company are held by Ms. Chen Jing in her personal interest.

7. 150,000 shares of the Company are held by Mr. Zhao Wei in his personal interest.

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

Save as disclosed above and those as disclosed under the heading "Discloseable Interests and Short Positions of Substantial Shareholders and Other Persons under the SFO" below, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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

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

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

The total number of outstanding share options as at the Annual Report Date was 4,000,000 which represent approximately 1.29% of the total number of issued shares of the Company as at that date.

As at the Annual Report Date, the total number of shares of the Company available for issue pursuant to the grant of further options under the Share Option Scheme is 26,000,000 shares, representing approximately 8.35% of the total number of issued shares of the Company as at the Annual Report Date.

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the year ended 31 December 2017 were as below:

Name or category of participants	Date of grant	Exercise price (HK$)	Exercise period	As at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2017
(a) Directors								
Mr. Lee Kwan Hung[3]	15 June 2011	1.810 [1]	15 December 2011 to 14 June 2021	300,000	–	–	(300,000)	–
	24 August 2015	1.172 [2]	24 August 2015 to 23 August 2025	300,000	–	–	(300,000)	–
Mr. Yuan Bo	15 June 2011	1.810 [1]	15 December 2011 to 14 June 2021	300,000	–	–	–	300,000
	24 August 2015	1.172 [1]	24 August 2015 to 23 August 2025	300,000	–	–	–	300,000
Ms. Chen Jing[4]	18 January 2016	1.004 [8]	18 January 2016 to 17 January 2026	400,000	–	–	–	400,000
Sub-total				1,600,000	–	–	(600,000)	1,000,000
Other Individual								
Mr. Ho Pak Tai Patrick[5]	15 June 2011	1.810 [1]	15 December 2011 to 14 June 2021	300,000	–	–	(300,000)	–
	24 August 2015	1.172 [2]	24 August 2015 to 23 August 2025	300,000	–	–	(300,000)	–
Mr. Zhao Wei[6]	18 January 2016	1.004 [8]	18 January 2016 to 17 January 2026	400,000	–	–	–	400,000
Sub-total				1,000,000	–	–	(600,000)	400,000
Employees in aggregate	15 June 2011	1.810 [1, 7]	15 December 2011 to 14 June 2021	–	–	–	–	–
	18 January 2016	1.004 [8]	18 January 2016 to 17 January 2026	1,400,000	–	–	–	1,400,000
	14 October 2016	1.250 [9]	14 October 2016 to 13 October 2026	1,200,000	–	–	–	1,200,000
Sub-total				2,600,000	–	–	–	2,600,000
Total				**5,200,000**	**–**	**–**	**(1,200,000)**	**4,000,000**

Notes:

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

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

3. Mr. Lee Kwan Hung resigned on 18 November 2017, the Board has approved to extend the lapse period of the options granted to him, to the extend of not already exercised, to 31 December 2017.

4. Ms. Chen Jing was appointed as a Director of the Company on 10 April 2017. These share options were granted to her when she was an employee of the Group.

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

6. Mr. Zhao Wei was appointed as the CEO of the Company on 17 November 2017. These share options were granted to him when he was an employee of the Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Details of the value of share options granted are set out in note 27 to the consolidated financial statements.

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

As at 31 December 2017, the following persons or corporations (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or chief executive of the Company:

Long positions in the shares of the Company:

Name	Capacity/nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
China Group Associates Limited (Note 1)	Beneficial owner	153,947,250	49.46
Rich China Investments And Trading Ltd. (Note 2)	Beneficial owner	28,421,100	9.13
Ms. Zhang Xin (Note 3)	Interest of spouse	219,208,000	70.43
Li Xiaoyong	Beneficial owner	26,440,000	8.49
Rich World Development Ltd. (Note 4)	Beneficial owner	21,435,100	6.89

Notes:

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

2. Rich China Investments And Trading Ltd. is a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of Rich China Investments And Trading Ltd.

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

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

Save as disclosed above, there was no person or corporation, other than a Director or chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO as at 31 December 2017.

CONTRACT OF SIGNIFICANCE

Save as disclosed below under the paragraph headed "Continuing Connected Transactions", there was no contract of significance between the Company or any of subsidiaries and a controlling Shareholder or any of its subsidiaries during the year.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the continuing connected transactions during the year are as follows:

	2017		2016	
	Annual cap RMB'000	**Actual amount RMB'000**	Annual cap RMB'000	Actual amount RMB'000
Connected transactions entered into with 北京深思軟件股份有限公司 (Beijing Deep Thought Software Co., Ltd.) ("**Beijing Deep Thought**") – Purchase and sales of goods and provision of services	**13,500**	**866**	13,500	Nil

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

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

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

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

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors have engaged the auditors of the Company to report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "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 unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The Directors also confirm the above continuing connected transactions also constitute related party transactions under the accounting standards, details of which are set out in note 31 to the financial statements. Related party transactions set out in note 31 to the financial statements other than those transactions disclosed above are not considered to be connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on pages 14 to 22 of this annual report.

AUDITORS

Messrs Deloitte Touche Tohmatsu has resigned as auditors on 1 December 2017. BDO Limited has been appointed as auditors of the Company on 7 December 2017.

BDO Limited will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board

Chen Jian
Chairman

Hong Kong, 23 March 2018

Environmental, Social and Governance Report

Over the years, while creating product value and fulfilling its economic responsibilities, the Group has never forgotten about its corporate social and environmental responsibilities, hence has consistently strived to satisfy the expectations of all stakeholders including its customers, suppliers and employees, and also the environment and society. This Environmental, Social and Governance Report has taken into account the Company and the subsidiaries of the Company as listed in note 30 to the consolidated financial statements.

The Group complied with the provisions set out in Appendix 27 "Environmental, Social and Governance Reporting Guide" for the year ended 31 December 2017.

PROVIDED HIGH QUALITY AND SAFE PRODUCTS AND SERVICES AND ENHANCED CUSTOMER SATISFACTION

The Group is committed to enhancing the experience of users of its products and services. It has established a healthy and effective model of cooperation with Huawei, IBM, Oracle and other leading international IT manufacturers. In the value-added distribution business area, relying on the product, service, technical capabilities and the advantages of the brand names of the manufacturers, we provide value-added system integration services ranging from pre-sales technical program advice to after-sales product installation, tuning, optimization, operation and maintenance, so as to provide customers with more comprehensive, high quality and convenient services. Through cooperating closely and on the good relationship already established with the manufacturers, the Group is able to provide all-around training to employees to enhance their product and market knowledge, and also opportunities for them for further education and promotion. As for its distribution business, the Group actively improved its downstream channel system, organized regular marketing activities, participated in exhibitions and given out publicity brochures and via other means to promote its products and services to customers. These efforts have enabled it to consolidate and rally channel partnerships nationwide and establish a good sales system.

During the year, together with Huawei, the Group organized 173 activities for more than 3,000 channel enterprises

Regarding its own brand products and services, the Group has in place strict product development management policies in accordance to relevant international and national guidelines for IT products and service management, and has continued to invest in research and development.

The Group participated in the 9th China Cloud Computing Conference and has become a council member of the "China Cloud Service Alliance". Its proprietary cloud development platform CloudoorSphere was certified as a trustworthy open source solution. The platform was adopted for use in 2017 by the Zhongguancun the Belt and Road Industrial Promotion Association (Zhongguancun the Belt and Road Industrial Promotion Association is approved for set up by the Zhongguancun Science Park Management Committee and the Beijing Municipal Bureau of Civil Affairs at the support of the National Development and Reform Commission, the Ministry of Science and Technology and Ministry of Foreign Affairs). Boasting highly functional, remote disaster recovery, system backup and other cloud functions, the platform ensures the safe, stable, highly efficient and continuous operation of the hardware, storage, network, and application systems of the association. In addition, the Cloudoors series cloud products made it on the 2017 government procurement list for use by central government divisions. This achievement exemplifies the Group's technology, products and services are highly recognised and valued.

As at the end of 2017, the Group owned copyrights of a total of 98 software, 15 of which were added during the year. Currently, the Group, via forging cooperative relationship with leading public cloud service providers, helps customers transfer their business from the tradition IT environment to the public cloud environment, and it also cooperates with many innovative small and medium enterprises in the cloud computing and big data industries to provide customers with suitable value-added cloud service. At the same time, the Group has been putting major effort on developing proprietary cloud computing software products, that it may offer enterprise customers a comprehensive suite of cloud services and solutions. In the process of serving customers, the Group strictly complies with the Customer Information Act and its provisions, and requires employees to use customer information solely for providing customers with better products, services and for technical purposes. Unless given customer consent or required by law, it prohibits employees to disclose or provide customer information to third-parties.

As an IT service provider trusted over the years by customers, the Group abides by laws and regulations international and also the rules and regulations in the countries or regions it operates, plus the service and product standards and practices of manufacturers it works with and the industry. It carries out relevant audits each year matching partner manufacturers' requirement. In 2017, there were no incidents of serious violation of product and service rules and related litigations and disputes.

The Group was honourably awarded the Oracle China Regional Partner of the Year in Oracle FY17

Provide product and technical training of IBM products to partners

Seminars on big data transformation were launched in major cities e.g. Guangzhou, Beijing and Chengdu, etc. in cooperation with Oracle

RESPONSIBLE PROCUREMENT

The Group deeply appreciates the importance of environmental protection and its social responsibility as a corporate citizen. Thus, in addition to promoting sustainable business development, it partners with major suppliers to promote environmental protection to jointly pave way for green development.

The Group's approach to environmental protection echoes with the green strategic concept upheld by Huawei, a world-leading provider of information and communications technology solutions. Both companies have strived to reduce their carbon footprints and negative environmental impacts by continuous innovation and improving resources application and operational efficiency. Huawei has kept innovating and putting resources into developing highly energy-efficient products conducive to environmental protection. It is also committed to helping industries reduce paper consumption and carbon emissions with information and communication technologies, and ultimately lower the carbon emissions of the entire society.

And IBM, a supplier of the Group, has long been committed to environmental protection and energy conservation, which is evidenced in its products and services. The company's hardware products boast environmental protection, energy saving, space saving and low noise attributes, and the packaging materials the company uses are largely environmentally friendly and recyclable. The Group and IBM worked together on the "Green Horizon" program and its upgrade version between 2015 and 2016, which entail the use of findings of analysis of 30 years of global weather data and forecasting experience to uncover the causes of compound atmospheric pollution and its formation patterns. The program continued in 2017.

Oracle, a world renowned enterprise, has been committed to environmental protection, energy saving and emission reduction and has shown respect for labor rights and interests. As a value-added distributor of Oracle, the Group diligently complies with the client's requirements with regard to environmental protection, emission reduction and safeguarding employee rights.

UPHOLD OPERATIONAL INTEGRITY, ABIDE BY LAW, REGULATIONS AND BUSINESS ETHICS

The Group recognizes the importance of anti-corruption and anti-fraud, which are stated clearly as the Group's social responsibility. The Group complies with international and government anti-corruption laws and regulations, and strictly enforces anti-corruption supervision. It upholds the principle of "prevention is better than cure", as such has been proactive in giving anti-corruption prevention education. At the beginning of 2017, the Group engaged a third party to undertake survey of some of its agents and an Anti-corruption and Cooperation Appropriateness Due Diligence Report was issued.

In the year 2017, the Group offered four batches of anti-corruption pre-job training to new recruits. The anti-corruption training materials on the APP end was renewed and a new series of anti-corruption tests was launched and all employees were required to complete the anti-corruption test on the APP end. On 20 June 2017, the Group joined hands with Oracle's Channel Department to offer business compliance training in Beijing to the Group's management team, Internal Supervision Department, Financial Department, Sales Department, Business Department, Technical Department and all marketing sales representatives from all branches. The training covered mainly details of the compliance assessment and anti-corruption & anti-fraud system of Oracle, emphasizing that Futong's employees must understand and meet the compliance requirements, that outside contract arrangements are strictly prohibited and there are to be no deception or concealment, clear stating the Group's zero tolerance to illegal acts. On top of the 50 employees attending the training on-site, about 30 overseas employees also took part remotely with the help communication tool.

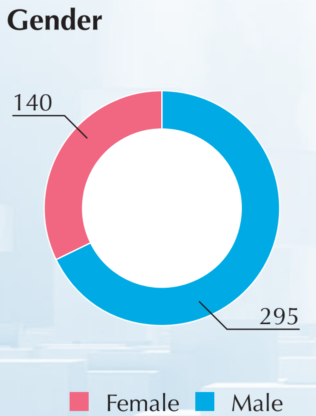
Embracing anti-corruption and anti-bribery work, the Group has devoted considerable effort on setting up a prevention-based anti-corruption supervision system with four tiers namely the Board, the management team, Business and Functions Department and the Internal Audit Department. As for supervision responsibility, a three-layered organization made up of the Financial Department, Compliance Department and Internal Audit Department is in place, achieving cross-supervision and restraint, to practically fulfill the Group's social responsibility.

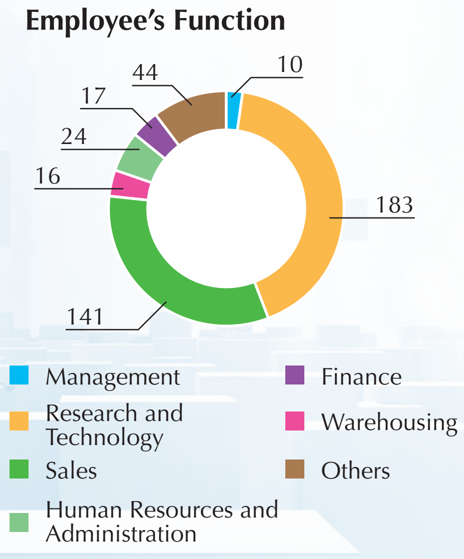
During the Reporting Period, the Group strictly abided by all laws and regulations related to bribery, extortion, fraud and money laundering. No employees had been found having committed any acts of bribery, fraud and corruption, and no such complaints from a third party had been received by the Group.

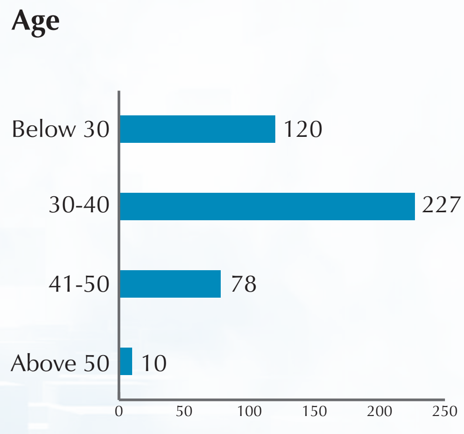
PEOPLE-ORIENTED, DEDICATED TO FOSTERING GROWTH OF EMPLOYEES

Consistently adhering to its "people-oriented" philosophy, the Group provides a fair and equal employment work environment to it staff, focusing on nurturing the capabilities and realizing the potentials of employees. This approach has helped enhance the core competitiveness of the Group and assure it of access to high quality human resources.

The Group carries out staff hiring and dismissal procedures in accordance to national and local laws and regulations, and also its internal rules and practices. In view of the job nature of employees, we have implemented standard working hours to reasonably arrange employees to work overtime, in light of job requirements, provide overtime compensation to our staff in accordance to legal requirements and arrange compensation leave for staff. Specific training will be carried out to new recruits and professional staffers to nurture their specialty skills for contributing to the Group.







ADHERE TO EQUAL EMPLOYMENT, PROMOTE DIVERSIFICATION

Considering the characteristics of the industry in which the Group belongs and with a staff predominantly made up of those specializing in science and engineering, the male and female employee ratio is significantly affected. Despite that, Futong has adhered to the diversification principle, insisting on fairness in recruitment and protecting equally the right to employment of both men and women. In 2017, female employees accounted for 32.2% of the entire workforce of the Group. In addition, Futong's 23 offices across the country also contributed to local employment. During the year, it also stepped up recruitment and nurturing of fresh graduates, opening more job opportunities for university graduates.

PROTECT LEGAL RIGHTS AND INTERESTS OF AND IMPROVE COHESION AMONG EMPLOYEES

The Group strictly abides by government and local regulations, as well as its internal rules and constantly improves its internal management system and processes relating to recruitment and dismissal of employees. Standard working hours is implemented based in the job nature of employees. It does not encourage employees to work overtime. It advocates timely and efficient work. However, for inevitable and necessary overtime work, reasonable arrangement will be made and employees will be compensated in payment and leave in accordance with the requirements of laws and regulations.

The Group also emphasizes work-life balance for its employees. For this reason, on top of statutory national holidays, annual leave and full pay sick leave, female employees and young employees can enjoy leave on 8th March Women's Day and 4th May Youth Day. Furthermore, for employees who have children under 10-years-old, they can enjoy a day off on 1st June.

CARE FOR EMPLOYEES, ENHANCE STAFF CONTENT

The Group is committed to enhancing feeling of content of its staff in different aspects, for example, in career, the Group together with its employees will design a reasonable and scientific career plan for the employee heeding his or her needs and matching also the Group's development objectives, to let employees have a clear appreciation of their value and directions, and also their importance to their team.

On employees' work environment, the Group devotes its best effort to creating a pleasant environment for its employees with the help of regular checks and analysis to ascertain whether the environment and conditions at work is good for their physical and mental health, whether a work position matches the interest of an employee and whether an employee enjoys his or her work, etc.

OPTIMIZE SALARY SYSTEM TO MOTIVATE EMPLOYEES

The Group has a comprehensive remuneration and benefits system to provide employees with competitive remuneration packages. Through internal promotion, granting of rewards and a salary adjustment mechanism, an employee's performance and remuneration and also personal development are closely linked to ensure the outstanding employees can receive more work incentives and recognition for their performance.

Employees of the Group actively participated in Futong 2017 Annual Meeting

The Group, as required by relevant laws, contributes to social insurance and housing fund or mandatory provident fund for all employees. It also provides employees with different benefits including meal allowance, transportation allowance, telephone bill allowance, holiday allowance, medical insurance, personal accident insurance, paid annual leave, paid sick leave, and health examinations, etc.

PROMOTE OCCUPATIONAL HEALTH AND PROVIDE MEDICAL SECURITY

The Group cares about the safety of employees at work and strives to provide them with a safe and healthy working environment. Increasing plant coverage and replacement rates, continuously improving indoor air quality and drinking water quality are some of the many measures implemented in the offices of the Company across the country. Their purpose is to provide employees with a clean, bright, comfortable and harmonious working environment, thereby enhance their motivation and work spirit, thus in turn their work efficiency.

Occupational health of its employees is a top priority in the Group's business operation. The Group contributes to social insurance, as required by law, and takes out supplementary medical insurance and accident protection commercially available for employees. Annual health examinations are arranged for employees that they may know more about their physically conditions. Abiding by laws, for pregnant, breast-feeding women employees, reasonable work arrangement will be made to make sure they and fetus or baby will not be exposed to any danger. In addition, holidays will be provided for female employees during pregnancy or lactation. The Group has insisted on lowering work risks to protect employees' occupational health.

The Group has consistently complied with all relevant laws and regulations which have significant impact on the Group in relation to providing employees with a safe working environment and protecting them from occupational hazards. All these years in operation, the Group had not had any serious health and safety incidents nor disputes with employees.

IMPROVE STAFF TRAINING SYSTEM TO BUILD A PROFESSIONAL TEAM

To help new recruits quickly assimilate into the enterprise, starting from the second half year of 2017, the Group has increased training for them from once every two months to once a month. The training is customized by the training development team and taught by the Group's senior lecturers. On top of learning in great detail about the Group's corporate culture, and personnel, financial, administrative and business systems, participants will also be coached on operational skills in IT, availing to them comprehensive training service. In 2017, eight batches of new recruits, up to 135 in person count in all, received training. Moreover, training videos on different topics were added in the Group's online training APP to allow employees to sharpen their skills anytime, anywhere.

For employees to have a full grasp of the Company's regulations and systems, a confluence of the Company's regulations and systems has been uploaded onto the public cloud drive, so that employees can check and find the information they need conveniently, which can effectively enhance their work efficiency.

The Group also organizes weekly technical training for technical staff, covering topics including the Group's products and techniques, and experts from the Group's partners will be invited to explain relevant products and techniques to help hone the overall capability of technical staff.

PARTICIPATE IN SOCIAL AND CHARITABLE ACTIVITIES, PROMOTE COMMUNITY DEVELOPMENT

In terms of minimising the Group's impact on the environment and natural resources, we have always been upholding the policy and philosophy of "taking root among the society, giving back to the society", with practical measures taken to proactively carry out our corporate social responsibility. Apart from taking the initiative to join the Greening Integration of Urban and Rural Beijing activity to contribute to the ecological civilization of the motherland, it also actively organizes and encourages its staff to join various social and charitable activities. In April 2017, the Group organized about 20 employees to join the tree-planting activity in Pinggu District. In the days ahead, the Group will continue to mount activities aiming to protect the environment and also for charitable causes, to show its care for and to give back to society, so as to achieve advancement and sustainable development for the corporation, employees and society all at the same time.

ACTIVELY PROMOTE ENERGY CONSERVATION AND EMISSION REDUCTION TO PROTECT THE ENVIRONMENT

The Group embraces green operation and energy conservation and lowering carbon emissions to contribute to environmental protection. It has in place a set of rules and mechanisms to help it cut down resources usage and carbon emissions and it encourages employees to work by and use them in every day operational activities. In addition, via review of its energy usage situations, it locates areas that consume much energy and have room to marked improve energy efficiency.

Measures to reduce resources consumption and waste and emission of the Group include:

1. Centralized handling of electronic waste and obsolete office equipment and all material for disposal or recycling will be handled by appointed professional waste recycling companies;

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

3. Purchase office equipment and supplies made of recycled materials;

4. Promote a “paperless office” and encourage employees to “commute low-carbon”, to take public transport a day each week instead of driving;

5. Refrigerators and microwave ovens in the pantry are cleaned and maintained by professional cleaning staff each week and refrigerator and freezer temperatures are set at optimum levels for energy conservation;

6. To reduce greenhouse gas emissions, a notice reminding staff to safe power is placed next to air conditioning switches in the Beijing office. During summer, the temperatures of air conditioners are set between 26 and 28 degrees Celsius adhering strictly to regulations on air conditioner usage management in office buildings set by the Beijing municipal government. Designated staffers will make sure the rule is followed and that nobody should adjust air conditioning temperature at will. When air conditioners are in operation, all doors and windows in the office have to be closed to reduce energy wastage and carbon emissions;

7. Strictly require employees to switch off their computers and other electronic equipment before leaving the office after work to lower electricity consumption, and for equipment that can be switched off during the night, designated staffers of the administration department will check whether relevant items are switched off after office hours;

8. During daytime when lighting is good, designated staffers of the administration department will dim lights in the office to implement the “trimming power for lighting by half during daytime” practice

9. Employees are prohibited from using high-voltage electrical equipment and there are penalties for violation;

10. Water-saving notices are posted in washrooms, requiring employees to only turn on the faucet when needed and not waste water;

11. Encourage paperless working in the office. If keeping paper record of documents is necessary, double-sided printing is preferred, and reuse is encouraged, for example, using recycle paper for facsimile, notes and memos to reduce paper consumption and wastage. Paper procurement volume of the Group decreased in 2017 thanks to the measure;

12. Regulate company vehicles usage by strictly prohibiting private use. Approvals from supervisors shall be obtained before using a company vehicle and the vehicle and driving route must be reasonably arranged to reduce fuel consumption; and

13. Green plants are put in suitable office areas to absorb greenhouse gas emissions and reduce noise.

For the Group is not in the business of manufacturing, its major emissions are greenhouse gases from consumption of electricity in the office, sewage from office water consumption, domestic waste and carbon dioxide, methane, nitrous oxide, and other gases from combustion of vehicle fuel, otherwise it does not typically produce any toxic waste gas and waste water that have serious impact on the environment. In addition, at its active effort to implement measures to reduce energy consumption and emissions, the water and electricity consumption of the Group in 2017 came down by 10% and 7% respectively when compared with 2016, and total greenhouse gas emissions also reduced by 8.4%, and the waste discharged decreased sharply by more than 20%. The Group will exert yet greater effort on energy conservation and reducing emissions to do its part in contributing to the well-being of planet earth. We have complied with all relevant laws and regulations that have a significant impact on the Group in connection with (i) emissions; (ii) staff employment, providing a safe working environment and protecting employees from occupational hazards, labour standards; (iii) product/service responsibility; and (iv) anti-corruption, bribery, extortion, fraud and money laundering.

The following is the data of the Group's energy consumption, emission of greenhouse gases, waste and sewage for the year ended 31 December 2017.

Emission Indicator	Unit	2017	2016
Direct emissions of greenhouse gas	Tonne of CO_2e	19.54	18.82
Of which: Direct emissions of carbon dioxide (CO_2)	Tonne	19.47	18.75
Direct emissions of methane (CH_4)	Tonne	0.02	0.02
Direct emissions of nitrous oxide (N_2O)	Tonne	0.05	0.05
Indirect emissions of greenhouse gas	Tonne of CO_2e	425.66	467.43
Total emissions of greenhouse gas	Tonne of CO_2e	445.20	486.25
Emissions of greenhouse gas/staff per capita	Tonne of CO_2e/staff	0.8886	0.9262
Total waste discharge	Tonne	42.22	71.35
Waste discharge/staff per capita	Tonne/staff	0.0843	0.1359
Total discharge of domestic sewage	Square meter	2,355.29	2,612.99

Energy and Water Consumption Indicator	Unit	2017	2016
Electricity consumption	(kWH)	586,027.00	629,166.96
Gasoline consumption	(L)	8,948.97	8,620.98
Comprehensive energy consumption	(tonne of standard coal)	81.64	86.58
Comprehensive energy consumption/staff per capita	Tonne of standard coal/staff	0.1629	0.1649
Paper consumption	(kg)	3,043.66	3,169.90
Municipal water consumption	(tonne)	2,776.35	3,083.28
Comprehensive water consumption/staff per capita	tonne/staff	5.5416	5.8729

Independent Auditor's Report

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF
FUTONG TECHNOLOGY DEVELOPMENT HOLDINGS LIMITED
富通科技發展控股有限公司
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Futong Technology Development Holdings Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") set out on pages 57 to 118, which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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 on sales of goods

Refer to note 7 to the consolidated financial statements and the Group's significant accounting policies set out in note 4.14

We have identified the revenue recognition on sales of goods as a key audit matter as during the year, a majority of recorded revenue transactions are related to the Group's revenue arrangements for sales of IT infrastructure products. Sales of goods transactions are generally recorded in the system kept and maintained by the Group when goods are delivered and titles have been passed, while certain sales arrangements are evidenced by customers' acceptance. The amount and volume of sales of goods transactions are significant to the consolidated financial statements.

Our response

Our audit procedures in relation to revenue recognition on sales of goods included:

- Evaluating key controls in connection with the recognition of revenue derived from sales of goods;

- Evaluating the Group's IT systems and related computer controls that are relevant to the recording of sales of goods transactions;

- Analysing the sales of goods data during the year kept in the systems and maintained by the Group for major trends throughout the year. Identifying significant fluctuations and comparing and contrasting them with explanations elaborated by management to identify significant unusual deviations and, where necessary, investigating related deviations therefore noted; and

- Testing the sales of goods transactions recorded, on a sample basis, by referring to evidence obtained including third party documentation of deliveries and, where appropriate, customers' acceptance and by checking the fulfilment of necessary contractual rights and obligations in the sales arrangements during the year as well as around the year end.

KEY AUDIT MATTERS *(Continued)*

Write-down of inventories

Refer to note 19 to the consolidated financial statements and the Group's significant accounting policies and the critical accounting estimates and judgements set out in note 4.8 and note 5(ii)

We have identified the adequacy of the write-down of inventories as a key audit matter because inventories represent a significant asset on the Group's statement of financial position and are carried at the lower of cost and net realisable value. Management is required to make its best estimates of the net realisable value of inventories, in particular for obsolete inventory items, and significant judgement is required. In identifying inventory items, the net realisable value of which may fall below their costs, management refers to changes in product specifications noted in the recent order requests from its customers as well as the ageing analysis information of its inventories.

Our response

Our audit procedures in relation to the write-down of inventories included:

- Evaluating the Group's key controls relating to management's determination of obsolete inventory items, inventory ageing analysis and level of inventory write-downs;

- Evaluating against evidence available for management's judgement over occurrence of any event during and subsequent to the year end indicating potential inventory obsolescence that may lead to a write-down of inventories, its impact on the management's assessment of the write-down thereof, a comparison of changes in product specifications in the recent order requests from customers to those of inventories kept by the Group and other available indicators;

- Testing and checking, on a sample basis, the ageing analysis of the inventories kept and recorded by management which forms one of the basis of management's assessment of the write-down for obsolete inventories;

- Comparing management's estimates made in prior periods against evidence available in the current period relating to the obsolescence and marketability of inventories; and

- Comparing the value of recent selling prices of inventories subsequent to the reporting year to management's assessment of value of inventories after write downs and checking, on a sample basis, these selling prices of inventories subsequent to the reporting year against evidence available including sales invoices issued.

KEY AUDIT MATTERS *(Continued)*

Impairment of trade receivables

Refer to note 20 to the consolidated financial statements and the Group's significant accounting policies and the critical accounting estimates and judgements set out in note 4.12 and note 5(iii)

We have identified the impairment of trade receivables as a key audit matter because such an impairment require management's best estimate over the expected losses arising from the collection of the debts incurred as at the balance sheet date and at the same time trade receivables represent a significant asset on the Group's balance sheet as at 31 December 2017. The recoverability of trade receivables is crucial in the Group's cash management.

Significant management judgement is required in determining an appropriate level of impairment to be made with reference to the assessment of the expected collection of each of the trade debts individually that is based on various factors including credit history of customers.

Our response

Our audit procedures in relation to impairment of trade receivables included:

- Evaluating the Group's key controls over management's assessment of recoverability of trade receivables with reference to customer's credit history;
- Understanding the key factors considered by management in assessing the recoverability of trade receivables, and challenging the reasonableness of these factors with reference to the customers' past settlement history and trends and status of settlements made subsequent to the year end. Examining also the reasonableness of management's judgement on the impact of overdue receivables with reference to the rationale behind non-payments; and
- Comparing management's estimates made in prior periods against evidence available in the current period relating to actual loss realised on uncollectible trade debts, in order to assess the reasonableness of impairment on expected loss of uncollectible trade debts, considered and provided by management as of the balance sheet date.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regards.

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, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

We communicate with 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants
Au Yiu Kwan
Practicing Certificate Number P05018

Hong Kong, 23 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	Year ended 31 December **2017** **RMB'000**	2016 RMB'000
Revenue	7	**3,662,931**	3,441,198
Cost of sales and services		**(3,440,894)**	(3,194,407)
Gross profit		**222,037**	246,791
Other income	8	**9,302**	9,375
Other gains and losses	8	**(23,978)**	(14,612)
Selling and distribution expenses		**(139,469)**	(134,596)
Administrative expenses		**(51,915)**	(47,108)
Profit from operations		**15,977**	59,850
Finance costs	9	**(45,263)**	(33,086)
Loss recognised on disposal of interests in associates		**–**	(647)
Share of loss of associates	18	**(85)**	(1,234)
(Loss)/profit before income tax expense	10	**(29,371)**	24,883
Income tax expense	11	**(10,523)**	(8,255)
(Loss)/profit and total comprehensive income for the year		**(39,894)**	16,628
(Loss)/profit and total comprehensive income for the year attributable to:			
Owners of the Company		**(39,924)**	17,667
Non-controlling interests		**30**	(1,039)
		(39,894)	16,628
(Loss)/earnings per share			
– Basic and diluted (RMB)	15	**(0.13)**	0.06

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	At 31 December 2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	16	**26,990**	25,883
Other intangible assets	17	**2,752**	3,817
Interests in associates	18	**6,764**	7,326
Deferred tax assets	25	**29,033**	28,701
Total non-current assets		**65,539**	65,727
Current assets			
Inventories	19	**309,443**	433,486
Trade, bills and other receivables	20	**906,128**	1,266,901
Tax recoverable		**–**	1,117
Pledged deposits	21	**138,468**	226,698
Bank balances and cash	22	**237,207**	172,648
Total current assets		**1,591,246**	2,100,850
Current liabilities			
Trade, bills and other payables	23	**635,677**	981,246
Bank and other borrowings	24	**483,866**	603,728
Tax payable		**802**	–
Total current liabilities		**1,120,345**	1,584,974
Net current assets		**470,901**	515,876
NET ASSETS		**536,440**	581,603
CAPITAL AND RESERVES			
Share capital	26(a)	**27,415**	27,415
Reserves		**504,368**	549,562
Attributable to owners of the Company		**531,783**	576,977
Non-controlling interests		**4,657**	4,626
TOTAL EQUITY		**536,440**	581,603

On behalf of the directors:

Chen Jian
Executive Director

Chen Jing
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000 (note 26b(i))	Merger reserve RMB'000 (note 26b(ii))	Share options reserve RMB'000	Statutory reserves RMB'000 (note 26b(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	27,415	81,538	219	751	69,702	386,457	566,082	5,665	571,747
Profit and total comprehensive income for the year	–	–	–	–	–	17,667	17,667	(1,039)	16,628
Recognition of equity-settled share-based payments (note 27)	–	–	–	777	–	–	777	–	777
Appropriation to statutory reserves	–	–	–	–	969	(969)	–	–	–
Dividends (note 14)	–	–	–	–	–	(7,549)	(7,549)	–	(7,549)
Balance at 31 December 2016 and 1 January 2017	**27,415**	**81,538**	**219**	**1,528**	**70,671**	**395,606**	**576,977**	**4,626**	**581,603**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(39,924)**	**(39,924)**	**30**	**(39,894)**
Recognition of equity-settled share-based payments (note 27)	**–**	**–**	**–**	**372**	**–**	**–**	**372**	**–**	**372**
Lapse of share options (note 27)	**–**	**–**	**–**	**(518)**	**–**	**–**	**(518)**	**–**	**(518)**
Appropriation to statutory reserves	**–**	**–**	**–**	**–**	**1,084**	**(1,085)**	**(1)**	**1**	**–**
Dividends (note 14)	**–**	**–**	**–**	**–**	**–**	**(5,123)**	**(5,123)**	**–**	**(5,123)**
Balance at 31 December 2017	**27,415**	**81,538**	**219**	**1,382**	**71,755**	**349,474**	**531,783**	**4,657**	**536,440**

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
(Loss)/profit before income tax expense		**(29,371)**	24,883
Adjustments for:			
Interest income		**(2,152)**	(2,377)
Gain on disposal of property, plant and equipment		**(202)**	(692)
Finance costs		**45,263**	33,086
Depreciation of property, plant and equipment		**4,407**	5,098
Amortisation of other intangible assets		**941**	2,166
Written off on other intangible assets		**124**	–
Impairment loss on inventory		**13,415**	–
Share of losses associates		**85**	1,234
Loss on disposal of interests in an associate		**–**	647
Write back of inventories		**(4,941)**	(1,037)
Impairment loss on trade receivables		**14,047**	9,017
(Reversal of)/recognition of share-based payment expenses		**(146)**	777
Operating profit before working capital changes		**41,470**	72,802
Decrease/(increase) in trade, bills and other receivables		**346,725**	(444,688)
Decrease/(increase) in inventories		**115,569**	(71,769)
(Decrease)/increase in trade, bills and other payables		**(345,569)**	241,277
Cash generated from/(used in) operations		**158,195**	(202,378)
Income tax refund		**–**	4,186
Income tax paid		**(9,185)**	(9,561)
Net cash generated from/(used in) operating activities		**149,010**	(207,753)
Cash flows from investing activities			
Interest income received		**2,152**	2,377
Proceeds on disposals of property, plant and equipment		**214**	1,780
Purchase of property, plant and equipment		**(6,866)**	(4,307)
Development costs paid		**–**	(3,474)
Withdrawal of pledged bank deposits		**426,062**	100,591
Placement of pledged bank deposits		**(337,832)**	(159,817)
Net cash inflow of disposal of an associate		**–**	2,517
Net cash generated from/(used in) investing activities		**83,730**	(60,333)

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from financing activities			
Proceeds from new bank borrowings		**306,798**	1,013,216
Repayment of bank borrowings		**(426,660)**	(912,588)
Proceeds from other borrowings		**–**	63,491
Repayment of other borrowings		**–**	(23,722)
Interest paid		**(45,263)**	(33,937)
Dividends paid		**(5,123)**	(7,549)
Net cash (used in)/generated from financing activities		**(170,248)**	98,911
Net increase/(decrease) in cash and cash equivalents		**62,492**	(169,175)
Cash and cash equivalents at beginning of the year	22	**172,648**	341,823
Effect of foreign exchange rate changes		**2,067**	–
Cash and cash equivalents at end of the year	22	**237,207**	172,648

1. GENERAL INFORMATION

Futong Technology Development Holdings Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company. The address of the Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Rooms 2406-2412, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**").

The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in provision of enterprise IT infrastructure products and services. There were no significant changes in the business during the year.

As at 31 December 2017, the Company's immediate and ultimate parent is China Group Associates Limited which was incorporated in the British Virgin Islands (the "**BVI**"). Its ultimate controlling party is Mr. Chen Jian, who is also the chairman and executive director of the Company.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

2.1 Adoption of new or revised IFRSs – effective 1 January 2017

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 12, Disclosure of Interests in Other Entities

Except as explained below, the adoption of these new and amended IFRSs did not result in substantial changes to the Group's accounting policies and had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

Amendments to IAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to additional disclosure presented in the note to the financial statements.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

2.2 New or revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards[1]
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures[1]
IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Except for IFRS 9, IFRS 15 and IFRS 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on the adoption of IFRS 15, IFRS 9 and IFRS 16 are described below.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

2.2 New or revised IFRSs that have been issued but are not yet effective *(Continued)*

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at Fair Value through Other Comprehensive Income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at Fair Value through Profit or Loss ("**FVTPL**").

IFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in IAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

The directors of the Company anticipate that the application of IFRS 9 in the future will have an impact on amounts reported in respects of the Group's financial performance and financial assets (e.g. impairment on trade and bills receivables) resulting from early provision of credit losses using the expected loss impairment model under assessing IFRS 9 instead of incurred loss model under IAS 39. The directors estimate that there will be no material impact on the Group's financial performance and position upon the appreciation of IFRS 9 in the year of initial adoption.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepaid financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

2.2 New or revised IFRSs that have been issued but are not yet effective *(Continued)*

IFRS 15 – Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps approach to revenue recognition:

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

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group recognises revenue from the following major sources:

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

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

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values upon application of IFRS 15 which will potentially affect the timing and amounts of revenue recognition. It is not practicable to provide a reasonable financial estimate of the effect until the directors of the Company complete the detailed review. In addition, the application IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

2.2 New or revised IFRSs that have been issued but are not yet effective *(Continued)*

Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

IFRS 16 – Leases

IFRS 16, which upon the effective date will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

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

As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating lease amounted to RMB16,525,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and Interpretations (hereinafter collectively referred to as “**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised in note 4. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or revised IFRSs and the impacts on the Group’s financial statements, if any, are disclosed in note 2.

The consolidated financial statements have been prepared under historical cost at the end of each reporting period. The measurement bases are fully described in note 4.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the “**Group**”). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group’s previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.1 Basis of consolidation *(Continued)*

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill, if any), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Group is able to exercise control. The Group controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profit and loss arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profit and loss resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

In the Company's statement of financial position, investments in associates are carried at cost less impairment loss, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

4.4 Foreign currency transaction

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.5 Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the supply of goods or services, or for administrative purposes are stated at valuation less accumulated depreciation and accumulated impairment losses, if any. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Depreciation is recognised so as to write off the costs net of estimated residual values over their estimated useful lives on straight-line method. The estimated useful lives, estimated residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The rate of depreciation per annum are as follows:

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

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

4.6 Intangible assets

Internally generated intangible assets (research and development costs)

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Intangible assets *(Continued)*

Internally generated intangible assets (research and development costs) *(Continued)*

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

4.7 Impairment of tangible and intangible assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.7 Impairment of tangible and intangible assets *(Continued)*

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

4.8 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using moving weighted average method. Net realisable value represents the estimated selling price for inventories.

4.9 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks (excluding pledged bank deposits) and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.10 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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, the existence of which 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Leasing

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

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.12 Financial instruments

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

Financial assets

The Group's financial assets are classified as loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

De-recognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial instruments *(Continued)*

Financial liabilities

The Group's financial liabilities including trade and other payables and borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 4.15).

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Bank borrowings and other loan

These are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the bank borrowings and other loan using effective interest method.

Bank borrowings and other loan are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade and bill payables, accrued expenses and other payables

These are recognised initially at fair value and subsequently measured at amortised cost, using effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issuance of shares over the par value. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

4.14 Revenue recognition

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

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

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

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

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

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

- Other service income is recognised when services are provided; and

- Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.15 Borrowing costs

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

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

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

4.16 Government grant

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

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

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

4.17 Employee benefits

Retirement benefits

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

Short term employee benefits

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.18 Income taxes

Income taxes for the year comprise current tax and deferred tax.

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.19 Share-based payments

The Group operates an equity-settled share-based compensation plan, which was a share option scheme by the Company, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Equity-settled share-based payments to employees and other providing similar services are measured at the fair value of the equity instruments at the grant date. These are indirectly determined by reference to the share options. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

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

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

4.20 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 key management personnel of the Group or the Company's parent.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.20 Related parties *(Continued)*

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

(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 the employees of 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 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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4.21 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognised as a liability. Interim dividends are simultaneously proposed and declared and consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation

The Group depreciates the property, plant and equipment in accordance with the accounting policies stated in note 4.5. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets. Management reassesses the estimated useful lives at the end of each reporting period.

(ii) Net realisable value of inventories

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

As at 31 December 2017, the carrying amount of inventories is RMB309,443,000 (31 December 2016: RMB433,486,000).

(iii) Impairment of receivables

Management assesses impairment of receivables on a regular basis. This estimate is based on the credit history of the customers and debtors and current market conditions. Management reassesses the impairment of receivables at the end of each reporting period.

(iv) Estimates of current tax and deferred tax

Significant judgement is required in determining the amount of the provision for tax and the timing of payment of the related tax. Where the final tax outcomes are different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

6. SEGMENT REPORTING

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

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

The Group's customer base is diversified and there are no customers whose transactions have exceeded 10% of the Group's revenue in 2017 and 2016.

7. REVENUE

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Sales of enterprise IT products	**3,351,279**	3,159,985
Provision of services	**311,652**	281,213
	3,662,931	3,441,198

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Sales of Huawei products	**1,696,946**	1,292,787
Sales of IBM products	**768,031**	865,902
Sales of Oracle products	**494,980**	427,978
Sales of other products	**391,322**	573,318
	3,351,279	3,159,985

8. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Other income:		
Interest income	**2,152**	2,377
Government grants (note)	**4,963**	3,397
Others	**2,187**	3,601
	9,302	9,375
Other gains and losses:		
Gain on disposals of property, plant and equipment	**202**	692
Impairment loss on trade receivables	**(14,047)**	(9,017)
Foreign exchange losses	**(8,965)**	(5,719)
Others	**(1,168)**	(568)
	(23,978)	(14,612)

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

9. FINANCE COSTS

All balances represent interest on borrowings which are wholly repayable within five years.

10. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

(Loss)/profit before income tax expense is arrived at after charging/(crediting):

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Auditor's remuneration:		
– Audit service	**1,680**	2,000
– Non-audit service	**200**	199
Amortisation of other intangible assets	**941**	2,166
Cost of inventories recognised as an expense, net of write back of inventories	**3,159,657**	2,953,941
Research and development costs	**5,723**	2,108
Depreciation of property, plant and equipment	**4,407**	5,098
Minimum lease payments paid under operating lease in respect of rented premises	**11,630**	12,049
Staff costs (including directors' emoluments):		
– Salaries and wages	**104,355**	107,514
– Contributions to retirement benefit scheme	**11,185**	10,964
– Equity-settled share-based payments	**372**	777
	115,912	119,255

10. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE *(Continued)*

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. These subsidiaries are required to contribute a 9% to 23% (2016: 13% to 20%) of payroll costs (subject to a cap) to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% (2016: 5%) of relevant payroll costs (subject to a cap) to the scheme, which contribution is matched by employees.

Total cost charged to profit or loss of RMB11,185,000 (2016: RMB10,964,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2017. As at 31 December 2017 and 2016, the amount due but not paid to the schemes is insignificant.

11. INCOME TAX EXPENSE

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current tax – Hong Kong profits tax		
Tax for the year	**–**	3,005
Over provision in respect of prior years	**(687)**	–
	(687)	3,005
Current tax – PRC income tax		
Tax for the year	**11,542**	4,658
Tax refund (note (iv))	**–**	(4,186)
Reversal of provision (note (iv))	**–**	(2,618)
	11,542	(2,146)
Deferred tax (note 25)		
Change in tax rate (note (iv))	**–**	9,192
Credit for the year	**(332)**	(1,796)
Income tax expense	**10,523**	8,255

11. INCOME TAX EXPENSE *(Continued)*

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

(ii) Hong Kong Profits Tax is calculated at 16.5% (2016:16.5%) of the estimated assessable profit.

(iii) Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Company's subsidiaries in the PRC is 25% in 2017 and 2016.

(iv) A subsidiary of the Company in the PRC has been granted continuously on a three year interval with a qualification of high-tech enterprise which entitles this subsidiary a preferential income tax rate of 15%, for the years between 2014 and 2016. However, in 2015 and 2014, this subsidiary received tax notices from the relevant tax authority for suspending such entitlement as a result of a compliance issue with certain regulations over the VAT invoices then prevailing in the PRC in 2012 and the then applicable income tax rate for this subsidiary was 25% from 2014 to 2016.

The subsidiary settled the compliance issue with the tax authority in 2016 that has resulted in the reinstatement of the applicable preferential tax rate of 15% from 2013 to 2015. As a result, in 2016, this subsidiary received a tax refund of approximately RMB4.2 million in respect of additional income tax previously paid based on the tax rate of 25%. In addition, income tax payable for 2014 of approximately RMB2.6 million was reversed as income tax credit by this subsidiary. In 2017, the subsidiary has obtained a reply from the tax authority for the continuous use of the preferential tax rate of 15% in 2016 according to the above-mentioned entitlement under the qualification of high-tech enterprise. Accordingly, in the opinion of the directors of the Company, this subsidiary is subjected to a preferential tax rate of 15% for year 2016 and would be granted with the qualification of high-tech enterprise and enjoy the preferential tax rate of 15% for year 2017 and onwards, after provision of certain filings to the relevant authorities by this subsidiary. As a result, the Group has revised the estimate of future applicable income tax from 25% to 15% and an amount of RMB9,192,000 of deferred tax charge resulting from such change of tax rate is recognised in the profit or loss in year 2016.

11. INCOME TAX EXPENSE *(Continued)*

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

	2017 RMB'000	2016 RMB'000
(Loss)/profit before income tax expense	**(29,371)**	24,883
Tax calculated at applicable tax rate of 25% (2016: 25%)	**(7,343)**	6,221
Effect of different tax rates	**12,446**	(5,222)
Tax effect of share of loss of associates	**140**	309
Utilisation of deductible temporary differences previously not recognised	**–**	(780)
Tax effect of tax losses not recognised	**2,564**	4,079
Tax effect of expenses not deductible for tax purposes	**2,716**	1,260
Tax effect on deferred tax balances due to the change in income tax rate from 25% to 15%	**–**	9,192
Reversal of provision	**–**	(6,804)
Income tax expense	**10,523**	8,255

12. DIRECTORS' EMOLUMENTS

	Fees RMB'000	Salaries and allowances RMB'000	Share-based payment RMB'000	Defined contribution scheme RMB'000	Total RMB'000
2017					
Executive directors					
Mr. Chen Jian (i)	–	2,059	–	187	2,246
Ms. Chen Jing (ii)	–	755	29	87	871
Ms. Zhang Yun (iii)	–	2,084	–	190	2,274
Independent non-executive directors					
Mr. Chow Siu Lui	241	–	–	–	241
Mr. Yuan Bo	246	–	–	–	246
Mr. Ho Pak Tai Patrick (iv)	–	–	–	–	–
Mr. Lee Kwan Hung (v)	220	–	–	–	220
	707	4,898	29	464	6,098

12. DIRECTORS' EMOLUMENTS *(Continued)*

	Fees RMB'000	Salaries and allowances RMB'000	Share-based payment RMB'000	Defined contribution scheme RMB'000	Total RMB'000
2016					
Executive directors					
Mr. Chen Jian	–	1,911	–	114	2,025
Ms. Zhang Yun	–	2,344	–	152	2,496
Independent non-executive directors					
Mr. Chow Siu Lui	17	–	–	–	17
Mr. Yuan Bo	229	–	–	–	229
Mr. Ho Pak Tai Patrick	208	–	–	–	208
Mr. Lee Kwan Hung	208	–	–	–	208
	662	4,255	–	266	5,183

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

Notes:

(i) Mr. Chen Jian was resigned on 10 April 2017 and re-appointed as the chairman and executive director of the Company on 5 July 2017.

(ii) Ms. Chen Jing was appointed as executive director of the Company on 10 April 2017.

(iii) Ms. Zhang Yun was resigned on 17 November 2017.

(iv) Mr. Ho Pak Tai Patrick was resigned on 1 January 2017.

(v) Mr. Lee Kwan Hung was resigned on 18 November 2017.

(vi) Mr. Lo Kwok Kwei David was appointed as the director of the Company on 5 February 2018.

(vii) No directors received any emoluments from Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2017 (2016: Nil). No directors waived or agreed to waive any emoluments during the year ended 31 December 2017 (2016: Nil).

13. THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2016: two) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two (2016: three) individuals were as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and other emoluments	**1,759**	3,311
Discretionary bonuses	**–**	–
Defined contribution scheme	**203**	142
	1,962	3,453

Their emoluments were within the following bands:

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

SENIOR MANAGEMENT

Emoluments paid or payable to members of senior management were within the following bands:

	2017 **Number of** **individuals**	2016 Number of individuals
Nil to HK$1,000,000	**4**	6
HK$1,000,000 to HK$1,500,000	**4**	3
	8	9

14. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year:		
2016 final dividend: HK1.9 cents, equivalent to RMB1.6 cents (2015 final dividend: HK2.8 cents, equivalent to RMB2.4 cents) per share	**5,123**	7,549

For the year ended 31 December 2017, the directors do not recommend the payment of a final dividend. For the year ended 31 December 2016, a final dividend of HK1.9 cents (approximately equivalent to RMB1.6 cents) per share, totaling approximately HK$5,914,000 (approximately equivalent to RMB5,123,000) based on the total number of issued ordinary shares as at the date of issuance of the consolidated financial statements had been proposed and approved by the shareholders in the general meeting.

15. (LOSS)/EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share	**(39,924)**	17,667
	'000	'000
Number of ordinary shares for the purpose of basic (loss)/earnings per share	**311,250**	311,250
Effect of dilutive potential ordinary shares:		
Share options	**–**	107
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**311,250**	311,357

For the year ended 31 December 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as the exercise price of these options was higher than the average market price of shares for the year.

For the year ended 31 December 2016, the weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the Share Options C (as defined in note 27) granted in January 2016.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST					
At 1 January 2016	24,353	8,753	25,614	5,803	64,523
Additions	–	2,270	2,037	–	4,307
Disposals	–	–	(1,780)	–	(1,780)
At 31 December 2016 and 1 January 2017	**24,353**	**11,023**	**25,871**	**5,803**	**67,050**
Re-classification	**1,703**	**(1,703)**	**(79)**	**79**	**–**
Additions	**–**	**508**	**5,473**	**885**	**6,866**
Disposals	**–**	**(199)**	**–**	**(1,190)**	**(1,389)**
Exchange alignment	**(1,760)**	**(26)**	**(12)**	**(82)**	**(1,880)**
At 31 December 2017	**24,296**	**9,603**	**31,253**	**5,495**	**70,647**
ACCUMULATED DEPRECIATION					
At 1 January 2016	5,494	5,381	20,617	5,269	36,761
Depreciation	909	837	2,928	424	5,098
Written back on disposals	–	–	(692)	–	(692)
At 31 December 2016 and 1 January 2017	**6,403**	**6,218**	**22,853**	**5,693**	**41,167**
Depreciation	**520**	**676**	**2,998**	**213**	**4,407**
Written back on disposals	**–**	**(199)**	**–**	**(1,178)**	**(1,377)**
Exchange alignment	**(437)**	**(12)**	**(10)**	**(81)**	**(540)**
At 31 December 2017	**6,486**	**6,683**	**25,841**	**4,647**	**43,657**
NET BOOK VALUE					
At 31 December 2017	**17,810**	**2,920**	**5,412**	**848**	**26,990**
At 31 December 2016	17,950	4,805	3,018	110	25,883

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

(b) As at 31 December 2017 and 2016, all leasehold land and buildings have been pledged as security for the Group's bills payables (note 23).

17. OTHER INTANGIBLE ASSETS

	Software copyright RMB'000	Capitalised research and development cost RMB'000	Total RMB'000
COST			
At 1 January 2016	1,356	1,283	2,639
Additions	3,350	124	3,474
At 31 December 2016 and 1 January 2017	**4,706**	**1,407**	**6,113**
Written off	**–**	**(124)**	**(124)**
At 31 December 2017	**4,706**	**1,283**	**5,989**
ACCUMULATED AMORTISATION			
At 1 January 2016	130	–	130
Amortisation	883	1,283	2,166
At 31 December 2016 and 1 January 2017	**1,013**	**1,283**	**2,296**
Amortisation	**941**	**–**	**941**
At 31 December 2017	**1,954**	**1,283**	**3,237**
NET BOOK VALUE			
At 31 December 2017	**2,752**	**–**	**2,752**
At 31 December 2016	3,693	124	3,817

For the year ended 31 December 2016, the Group has obtained software copyright registration certificates issued by National Copyright Administration of the People's Republic of China ("中華人民共和國國家版權局") for completed projects with capitalised development costs of RMB3,350,000. The development costs for these completed projects are amortised on a straight-line basis at 20% per annum.

18. INTERESTS IN ASSOCIATES

	2017 **RMB'000**	2016 RMB'000
Cost of investment in associates, unlisted	**7,337**	7,337
Share of total comprehensive income	**(573)**	(11)
	6,764	7,326

Details of the Group's associates are as follows:

Name	**Place of incorporation, operation and principal activity**	**Percentage of ownership interests/voting rights/ profit share** **2017**	2016
Futong Technology Advanced Business Service Limited ("**Futong Technology**")	Investment holdings in Hong Kong	**49**	49
北京富通金信計算機系統服務有限公司 Beijing Futong Jinxin Computer System Service Co., Ltd. ("**Beijing Futong Jinxin**") # *	Provision of enterprise IT products and services in the PRC	**49**	49

This is a limited liability company established in the PRC.

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

18. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information (immaterial associates):

Year ended 31 December	**2017 RMB'000**	2016 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**6,764**	7,326
Aggregate amount of the Group's share of those associates:		
– (Loss)/profit generated from operations	**(85)**	804
– Share of loss in disposed associate	**–**	(2,038)
Total comprehensive expenses	**(85)**	(1,234)

19. INVENTORIES

	2017 RMB'000	2016 RMB'000
Trading stocks	**355,434**	471,003
Less: Write-down for inventory	**(45,991)**	(37,517)
	309,443	433,486

The Group has recognised a reversal of RMB4,941,000 (2016: RMB1,037,000), being part of an inventory write down made in the previous financial years, as the inventories were sold above the carrying amounts in 2017.

20. TRADE, BILLS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**835,283**	1,195,914
Less: allowance for doubtful debts	**(62,443)**	(48,595)
	772,840	1,147,319
Bills receivables	**60,378**	79,176
Total trade and bills receivables	**833,218**	1,226,495
Prepayments	**28,461**	24,660
Deposits	**15,297**	11,122
Other receivables	**29,152**	4,624
	906,128	1,266,901

20. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The Group allows an average credit period of 30-90 days (2016: 30-90 days) to its trade customers. For certain major customers such as the state owned enterprises, the credit term which will be negotiated by the management individually. Details of the Group's credit policy are set out in note 34(a). The following is an ageing analysis of trade and bills receivables net of allowance for doubtful debts as at the end of each reporting period based on invoice date.

	2017 **RMB'000**	2016 RMB'000
0-30 days	**406,856**	515,372
31-60 days	**113,068**	233,661
61-90 days	**103,604**	122,868
More than 90 days	**209,690**	354,594
	833,218	1,226,495

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

	2017 **RMB'000**	2016 RMB'000
Less than 1 month past due	**74,006**	124,060
1 to 3 months past due	**57,856**	43,656
More than 3 months past due	**87,991**	104,925
Total	**219,853**	272,641

The Group recognised impairment loss based on the accounting policy stated in note 4.12.

Trade and bills receivables of RMB219,853,000 (2016: RMB272,641,000) were past due but not impaired as at 31 December 2017. These related to a large number of diversified customers for whom there was no recent history of default. The Group does not hold any collaterals or other credit enhancements over these balances.

20. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The below table reconciles the allowance for doubtful debts for the year:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**48,595**	40,067
Impairment losses recognised	**14,047**	9,017
Bad debts written off	**(199)**	(489)
At 31 December	**62,443**	48,595

21. PLEDGED DEPOSITS

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

Pledged deposits carry interest at fixed rates which range from 0.01% to 1.68% (2016: 0.01% to 1.5%) per annum.

22. BANK BALANCES AND CASH

Bank balances and cash comprise of cash and cash equivalents.

At 31 December 2017, the balance included bank balances and cash in the PRC of approximately RMB232,390,000 (2016: RMB167,855,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Bank balances carry interest at variable rates which range from 0.01% to 0.35% (2016: 0.01% to 0.35%) per annum.

23. TRADE, BILLS AND OTHER PAYABLES

	2017 **RMB'000**	2016 RMB'000
Trade payables	**325,065**	512,329
Bills payables	**109,216**	182,876
Receipts in advance	**183,952**	205,792
Other payables and accruals	**17,444**	80,249
	635,677	981,246

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

23. TRADE, BILLS AND OTHER PAYABLES *(Continued)*

Included in trade payables are trade creditors with the following ageing analysis, based on invoice date at the end of reporting period:

	2017 **RMB'000**	2016 RMB'000
Current or less than 1 month	**93,735**	285,146
1 to 3 months	**81,614**	72,201
More than 3 months	**149,716**	154,982
	325,065	512,329

Bills payables are normally issued with a maturity of not more than 120 days (2016: 120 days). The bills payables were secured by leasehold land and buildings with carrying amount of RMB17,810,000 (2016: RMB17,950,000) and pledged deposit of RMB34,228,000 (2016: RMB94,218,000) as at 31 December 2017. The available amount of the banking facility for issuance of bills not yet utilised as at 31 December 2017 was approximately RMB280,360,000 (2016: RMB295,055,000).

The average credit period on purchases of goods was 30 - 90 days (2016: 30 - 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the acceptable timeframe.

24. BANK AND OTHER BORROWINGS

	2017 **RMB'000**	2016 RMB'000
Secured bank borrowings:		
Repayable within one year	**338,866**	471,700
Unsecured bank borrowings:		
Repayable within one year	**145,000**	92,259
Other borrowings	**–**	39,769
	483,866	603,728
Fixed-rate borrowings	**308,666**	67,028
Variable-rate borrowings	**175,200**	536,700
	483,866	603,728

24. BANK AND OTHER BORROWINGS *(Continued)*

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

	2017	2016
Fixed-rate borrowings	**5.00% - 7.00%**	2.23% - 9.60%
Variable-rate borrowings	**4.66% - 5.66%**	4.50% - 6.00%

No interest was capitalised for the year ended 31 December 2017 and 2016.

The amount of banking facilities and the utilisation at 31 December 2017 are set as follows:

	2017 **RMB'000**	2016 RMB'000
Banking facilities		
– Secured	**824,866**	562,886
– Unsecured	**211,000**	149,176
	1,035,866	712,062
Amount utilised	**483,866**	563,959

The secured banking facilities were secured by the following:

	2017 **RMB'000**	2016 RMB'000
Pledged deposits	**104,240**	122,763

At 31 December 2017, the Group's bank borrowings of RMB 40,000,000 (2016: RMB159,900,000) (including an amount of RMB40,000,000 (2016: RMB130,000,000) with a clause which entitles the bank an unconditional right to demand immediate repayment) are subject to the fulfilment of certain financial covenants, as are commonly found in lending arrangements with financial institutions, relating to certain ratio on the individual company's statement of financial position. If the financial covenants are breached, the drawn down facilities would become payable on demand.

The Company regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayments so long as the Group continues to meet these requirements. Details of the Group's management of liquidity risk are set out in note 34(b).

25. DEFERRED TAX

(a) Deferred tax assets recognised

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

	Write-down of inventories RMB'000	Impairment losses on trade receivables RMB'000	Accrued expenses and others RMB'000	Total RMB'000
At 1 January 2016	7,679	9,806	18,612	36,097
Credited/(charged) for the year	177	2,354	(735)	1,796
Effect of changes in tax rate (note 11 (iv))	(2,453)	(940)	(5,799)	(9,192)
At 31 December 2016 and 1 January 2017	**5,403**	**11,220**	**12,078**	**28,701**
Credited/(charged) for the year	**3,262**	**3,463**	**(6,393)**	**332**
At 31 December 2017	**8,665**	**14,683**	**5,685**	**29,033**

(b) Deferred tax assets not recognised

As at 31 December 2017, the Group had unused tax losses of approximately RMB43,072,000 (2016: RMB37,809,000), available to offset against future profits. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

	2017 RMB'000	2016 RMB'000
2018	**1,779**	1,779
2019	**2,243**	2,243
2020	**12,480**	12,480
2021	**16,316**	16,316
2022	**10,254**	–
	43,072	32,818

At the reporting period end, the Group has accumulated deductible temporary differences of RMB4,514,000 (2016: RMB4,941,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

25. DEFERRED TAX *(Continued)*

(c) Deferred tax liabilities not recognised

Under the EIT Law prevailing in the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB324,280,000 (2016: RMB313,426,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26. CAPITAL AND RESERVES

(a) Share capital

	2017		2016	
	Number of shares ‘000	**Nominal value HK$’000**	Number of shares ‘000	Nominal value HK$’000
Authorised ordinary shares of HK$0.1 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid ordinary share of HK$0.1 each	**311,250**	**31,125**	311,250	31,125
		RMB’000		RMB’000
Presented as		**27,415**		27,415

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

26. CAPITAL AND RESERVES *(Continued)*

(b) Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 59. Movements in the Company's reserves are as follows:

THE COMPANY	Share premium RMB'000	Merger reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	81,538	219	751	252,458	334,966
Recognition of equity-settled share-based payment	–	–	777	–	777
Profit for the year	–	–	–	12,961	12,961
Final dividends approved	–	–	–	(7,514)	(7,514)
At 31 December 2016	81,538	219	1,528	257,905	341,190
At 1 January 2017	**81,538**	**219**	**1,528**	**257,905**	**341,190**
Recognition of equity-settled share-based payments	**–**	**–**	**372**	**–**	**372**
Lapse of share options	**–**	**–**	**(518)**	**–**	**(518)**
Loss for the year	**–**	**–**	**–**	**(27,233)**	**(27,233)**
Final dividends approved	**–**	**–**	**–**	**(5,123)**	**(5,123)**
At 31 December 2017	**81,538**	**219**	**1,382**	**225,549**	**308,688**

The following describes the nature and purpose of each reserve within owners' equity:

(i) Share premium

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

(ii) Merger reserve

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

26. CAPITAL AND RESERVES *(Continued)*

(b) Reserves *(Continued)*

(iii) Statutory reserves

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

(c) Capital management

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

The Group defines ''capital'' as including all components of equity.

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

The gearing ratio at the end of reporting period was as follows:

	2017 **RMB'000**	2016 RMB'000
Debt	**483,866**	603,728
Cash and cash equivalents	**237,207**	172,648
Pledged Deposit	**104,240**	122,763
Net debt	**142,419**	308,317
Equity	**536,440**	581,603
Net debt to equity ratio	**27%**	53%

27. SHARE-BASED PAYMENTS

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

27. SHARE-BASED PAYMENTS *(Continued)*

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

Exercise price of Share Options A	HK$1.81 per Share
Closing price of the Shares on the date of grant	HK$1.80
Validity period of the Share Options A	10 years, commencing on 15 June 2011
Vesting date of Share Options A	All the Share Options A have been vested in 2011

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

Exercise price of Share Options B	HK$1.172 per Share
Closing price of the Shares on the date of grant	HK$0.90
Validity period of the Share Options B	10 years, commencing on 24 August 2015
Vesting date of Share Options B	All of the Share Options B have been vested in 2015

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

Exercise price of Share Options C	HK$1.004 per Share
Closing price of the Shares on the date of grant	HK$0.990
Validity period of the Share Options C	10 years, commencing on 18 January 2016
Vesting date of Share Options C	30%, 30% and 40% of the Share Options C have been vested on 18 January 2016, 18 January 2017 and 18 January 2018, respectively

27. SHARE-BASED PAYMENTS *(Continued)*

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

Exercise price of Share Options D	HK$1.25 per Share
Closing price of the Shares on the date of grant	HK$1.25
Validity period of the Share Options D	10 years, commencing on 14 October 2016
Vesting date of Share Options D	30%, 30% and 40% of the Share Options D have been vested on 14 October 2016, 14 October 2017 and 14 October 2018, respectively

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

Category	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2017
Share Options A	**900,000**	**–**	**–**	**(600,000)**	**–**	**300,000**
Share Options B	**900,000**	**–**	**–**	**(600,000)**	**–**	**300,000**
Share Options C	**2,200,000**	**–**	**–**	**–**	**–**	**2,200,000**
Share Options D	**1,200,000**	**–**	**–**	**–**	**–**	**1,200,000**
	5,200,000	**–**	**–**	**(1,200,000)**	**–**	**4,000,000**
Exercisable share options	**2,820,000**					**2,640,000**
Weighted average exercise price	**HK$1.35**					**HK$1.15**

27. SHARE-BASED PAYMENTS *(Continued)*

The following table discloses movements of the Share Options A, Share Options B, Share Options C and Share Options D in 2016:

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

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

The fair values of the Share Options A, Share Options B, Share Options C and Share Options D determined at the dates of the grants were RMB523,000 (equivalent to HK$630,000), RMB231,000 (equivalent to HK$280,000), RMB712,000 (equivalent to HK$847,000) and RMB518,000 (equivalent to HK$598,000) respectively. These fair values were calculated using Binomial Model.

The Group recognised the total expense of RMB372,000 for the year ended 31 December 2017 (2016: RMB777,000) in relation to the Share Options C and D.

28. OPERATING LEASE COMMITMENTS

The lease payments recognised as an expenses are as follows:

	2017 **RMB'000**	2016 RMB'000
Minimum leases payments paid during the year:		
Premises	**11,630**	12,049

As at 31 December 2017, total future minimum lease payments of the Group under non-cancellable operating leases are fall due as follows:

	2017 **RMB'000**	2016 RMB'000
Rented premises:		
– Within one year	**8,650**	8,130
– In the second to fifth year, inclusive	**7,875**	5,755
	16,525	13,885

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

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Investment in a subsidiary		**243,419**	243,419
Total non-current assets		**243,419**	243,419
Current assets			
Amounts due from subsidiaries		**109,503**	132,904
Bank balances and cash		**232**	244
Total current assets		**109,735**	133,148
Current liabilities			
Other payables and accruals		**645**	320
Amounts due to subsidiaries		**16,406**	7,642
Total current liabilities		**17,051**	7,962
Net current assets		**92,684**	125,186
NET ASSETS		**336,103**	368,605
CAPITAL AND RESERVES			
Share capital	26(a)	**27,415**	27,415
Reserves	26(b)	**308,688**	341,190
TOTAL EQUITY		**336,103**	368,605

On behalf of the directors:

Chen Jian
Director

Chen Jing
Director

30. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries, all of which are corporations in the form of business structure, are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ operation and principal activity	Issued and fully paid up capital/ registered shares	Percentage of ownership interests/voting rights/ profit share 2017	2016
Interests held directly					
Futong Technology Co., Ltd.	Corporation	Investment holding in the British Virgin Island ("**BVI**")	US dollars ("US$)50,000	**100**	100
Interests held indirectly					
Etong Technology Holdings Limited	Corporation	Investment holding in the BVI	US$1	**100**	100
Futong Technology IT Services Co., Ltd.	Corporation	Investment holding in the BVI	US$1	**100**	100
Futong Technology (HK) Company Limited	Corporation	Provision of enterprise IT products in Hong Kong	HK$1,000,000	**100**	100
Futong Technology Development Holdings (HK) Limited (notes (iii))	Corporation	Provision of enterprise IT products in Hong Kong	HK$57,779,100	**81**	81
Futong Cloud Technology (HK) Company Limited	Corporation	Investment holding in Hong Kong	HK$1,000,000	**100**	100
Futong Transcend Technology (HK) Company Limited	Corporation	Investment holding in Hong Kong	HK$1,000,000	**100**	100
北京富通東方科技有限公司 Futong Dongfang (notes (i) and (ii))	Corporation	Provision of enterprise IT products and services in the PRC	RMB100,000,000	**100**	100
富通時代科技有限公司 Futong Times Technology Co., Ltd. (notes (i) and (ii))	Corporation	Provision of enterprise IT products and services in the PRC	RMB100,000,000	**100**	100
北京易通東方科技有限公司 Beijing Etong Dongfang Technology Co., Ltd., (notes (i) and (ii))	Corporation	Provision of enterprise IT products in the PRC	RMB50,000,000	**81**	81

30. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ operation and principal activity	Issued and fully paid up capital/ registered shares	Percentage of ownership interests/voting rights/ profit share 2017	2016
富通雲騰科技有限公司 Futong Cloud Technology Co., Ltd (notes (i) and (ii))	Corporation	Provision of enterprise IT products and IT services in the PRC	RMB50,000,000	**100**	100
富通騰達科技有限公司 Futong Transcend Technology Co., Ltd. (notes (i) and (ii))	Corporation	Provision of enterprise IT products and IT services in the PRC	RMB50,000,000	**100**	100

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

Notes:

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

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

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

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

31. RELATED PARTY TRANSACTIONS

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

(i) Name and relationship with related parties:

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

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

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

(ii) Significant related party transactions

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

	2017 RMB'000	2016 RMB'000
Recurring transactions:		
Sales to		
Beijing Futong Jinxin	**2,983**	5,635
Centrin-FC	**–**	74
	2,983	5,709
Provision of services to		
Beijing Futong Jinxin	**1,149**	548
Centrin-FC	**–**	457
	1,149	1,005

31. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Significant related party transactions *(Continued)*

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

	2017 **RMB'000**	2016 RMB'000
Purchases from		
Beijing Futong Jinxin	**1,258**	183
Centrin-FC	**–**	2,901
	1,258	3,084
Provision of service		
Beijing Deep Thought	**866**	–
	2,124	3,084

31. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

	2017 **RMB'000**	2016 RMB'000
Trade receivables from (note (i)):		
Beijing Futong Jinxin	**618**	282
Trade payables to (note (i)):		
Beijing Futong Jinxin	**–**	3,658
Beijing Deep Thought	**–**	408
	–	4,066
Other receivables from (note (i)):		
Futong Technology	**–**	268
Other payables to (note (i)):		
Beijing Futong Jinxin	**–**	573
Beijing Deep Thought	**–**	42
	–	615
Advance payments to suppliers (note (i)):		
Beijing Futong Jinxin	**139**	1,628
Beijing Deep Thought	**111**	–
	250	1,628
Receipts in advance (note (i)):		
Beijing Futong Jinxin	**650**	558

Note:

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

31. RELATED PARTY TRANSACTIONS *(Continued)*

(iv) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's executive directors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2017 RMB'000	2016 RMB'000
Salaries and allowances	**11,507**	11,841
Contribution to retirement benefits schemes	**1,057**	575
	12,564	12,416

Total remuneration was included in "staff costs" (note 10).

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Bank and other borrowings (note 24) RMB'000
At 1 January 2017	**603,728**
Changes from cash flows:	
Proceeds from new bank loans	**306,798**
Repayment of bank loans	**(426,660)**
Interest paid	**45,263**
Total changes from financing cash flows:	**(74,599)**
Other changes:	
Interest expenses	**(45,263)**
Total other changes	**(45,263)**
At 31 December 2017	**483,866**

33. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables:		
Trade, bills and other receivables	**877,667**	1,242,241
Pledged deposits	**138,468**	226,698
Bank balances and cash	**237,207**	172,648
Financial liabilities		
Amortised costs:		
Trade, bills and other payables	**447,190**	712,541
Bank and other borrowings	**483,866**	603,728

The Group's major financial instruments include trade, bills and other receivables, pledged deposits, cash and cash equivalents, trade, bills and other payables and bank and other borrowings.

34. FINANCIAL RISK MANAGEMENT

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

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

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

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

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

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

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

34. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2017, the Group has available unutilised short-term bank loan facilities of approximately RMB552,000,000 (2016: RMB148,103,000), details of which are set out in note 24.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within one year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 31 December 2017					
Non-derivatives:					
Trade, bill and other payables	**447,190**	**447,190**	**447,190**	**–**	**–**
Bank and other borrowings:					
– Fixed rates	**308,666**	**312,963**	**312,963**	**–**	**–**
– Variable rates	**175,200**	**177,267**	**177,267**	**–**	**–**
	931,056	**937,420**	**937,420**	**–**	**–**
As at 31 December 2016					
Non-derivatives:					
Trade, bill and other payables	712,541	712,541	712,541	–	–
Bank and other borrowings:					
– Fixed rates	67,028	67,491	67,491	–	–
– Variable rates	536,700	546,635	546,635	–	–
	1,316,269	1,326,667	1,326,667	–	–

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

34. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk

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

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

Sensitivity analysis

Sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the variable-rate borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2017 would increase/decrease by approximately RMB685,000 (2016: decrease/increase by RMB2,034,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

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

34. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk

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

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

	2017		2016	
	US$	**HK$**	US$	HK$
	RMB'000	**RMB'000**	RMB'000	RMB'000
Assets				
Cash and cash equivalents	**3,989**	**838**	3,779	885
Trade receivables	**16,378**	**–**	29,539	–
Other receivables	**3,341**	**–**	–	1,311
Liabilities				
Trade payables	**(4,794)**	**–**	(131,721)	–
Other payables	**(46)**	**(5,615)**	(101)	–
Bank and other borrowings	**(65,200)**	**–**	(39,541)	–

Sensitivity analysis

The following table details the Group's sensitivity to a 6% increase and decrease in RMB against the relevant foreign currencies. 6% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. This sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 6% change in foreign currency rates. A positive number below indicates a decrease in post-tax loss (2016: an increase in post-tax profit) where RMB strengthen 6% against foreign currencies. For a 6% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	United States dollar		**Hong Kong dollar**	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**4,697**	5,763	**324**	(93)

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

34. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Fair values

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

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

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

Summary of Financial Information

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**3,662,931**	3,441,198	2,558,663	3,101,298	3,699,123
Profit from operations	**15,977**	59,850	65,098	108,099	111,324
Finance costs	**(45,263)**	(33,086)	(39,441)	(57,405)	(52,964)
(Loss)/gain recognised on disposal of interests in associates	**–**	(647)	94	–	–
Share of loss of associates	**(85)**	(1,234)	(1,730)	(3,717)	(5,130)
(Loss)/profit before income tax expense	**(29,371)**	24,883	24,021	46,977	53,230
Income tax expense	**(10,523)**	(8,255)	(715)	(12,852)	(11,164)
(Loss)/profit and total comprehensive income for the year	**(39,894)**	16,628	23,306	34,125	42,066
(Loss)/profit and total comprehensive Income for the year attributable to:					
– Owners of the Company	**(39,924)**	17,667	23,674	34,363	42,147
– Non-controlling interests	**30**	(1,039)	(368)	(238)	(81)
	39,894	16,628	23,306	34,125	42,066

	At 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**65,539**	65,727	78,092	66,275	77,964
Net current assets	**470,901**	515,876	493,655	492,065	458,508
NET ASSETS	**536,440**	581,603	571,747	558,340	536,472
Capital and reserves					
Share capital	**27,415**	27,415	27,415	27,415	27,415
Reserves	**504,368**	549,562	538,667	524,892	502,786
Total equity attributable to owners of the Company	**531,783**	576,977	566,082	552,307	530,201
Non-controlling interests	**4,657**	4,626	5,665	6,033	6,271
TOTAL EQUITY	**536,440**	581,603	571,747	558,340	536,472
(Loss)/earnings per share					
– Basic and diluted (RMB)	**(0.13)**	0.06	0.08	0.11	0.14

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian *(Chairman)*
(resigned on 10 April 2017 and re-appointed on 5 July 2017)
Ms. Chen Jing *(appointed on 10 April 2017)*

Independent Non-executive Directors

Mr. Chow Siu Lui
Mr. Yuan Bo
Mr. Lo Kwok Kwei David *(appointed on 5 February 2018)*

COMPANY SECRETARY

Mr. Kong Kai Chuen Frankie

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

LEGAL ADVISORS

As to Hong Kong law:
Chiu & Partners

As to Cayman Islands law:
Conyers Dill & Pearman

AUDITORS

BDO Limited *(appointed on 7 December 2017)*
Deloitte Touche Tohmatsu *(resigned on 1 December 2017)*

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

00465

WEBSITE

www.futong.com.hk