Cogobuy Group 科通芯城集團

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

Stock Code: 00400

2017
ANNUAL REPORT

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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

YE Xin
MA Qiyuan *(appointed on June 2, 2017)*
HAO Chunyi, Charlie *(appointed on February 13, 2018)*

Audit Committee

HAO Chunyi, Charlie *(Chairman)*
YE Xin
MA Qiyuan

Remuneration Committee

MA Qiyuan *(Chairman)*
YE Xin
HAO Chunyi, Charlie

Nomination Committee

YE Xin *(Chairman)*
MA Qiyuan
HAO Chunyi, Charlie

Registered Office

Offices of Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2861
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business

11/F Microsoft Comtech Tower
No. 55 Goaxin South 9th Road
Nanshan District
Shenzhen, China

Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

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

Company Secretary

WU Lun Cheung Allen

Authorized Representatives

KANG Jingwei, Jeffrey
WU Lun Cheung Allen

Auditor

SHINEWING (HK) CPA Limited
Certified Public Accountants

Legal Advisors

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

As to PRC law:
Broad & Bright Law Firm

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

Principal Bankers

Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited

Listing Information

Hong Kong Stock Exchange, Stock Code: 400

Company Website

www.cogobuy.com

FINANCIAL HIGHLIGHTS

	Year ended December 31, 2017	Year ended December 31, 2016	Year-on-year change
	(Renminbi ("RMB") in millions, unless specified)		
Revenue	**9,613.7**	12,932.8	(25.7)%
Gross profit	**770.2**	1,062.5	(27.5)%
Profit for the year	**301.3**	509.6	(40.9)%
Profit attributable to equity shareholders of the Company	**302.0**	478.8	(36.9)%
Earnings per share ("**EPS**") (RMB per share)			
— basic	**0.207**	0.347	(40.3)%
— diluted	**0.206**	0.345	(40.3)%

CHAIRMAN'S STATEMENT

2017 was a year full of challenges and opportunities. Following malicious short selling reports, the Company's direct sales business declined from June through the third quarter of 2017. Fortunately, after the Company pivoted its corporate development strategy, the direct sales business stabilized and rebounded. For the full year, we generated RMB25.2 billion in Gross Merchandise Value ("**GMV**"), of which 37.1% came from direct sales value, 44.1% from transaction value in our online marketplace, and 18.8% from loan value in our supply chain financing business.

Riding a new wave of technology disruption driven by the rise of Artificial Intelligence ("**AI**") and the Internet of Things ("**IoT**"), we transformed our corporate development strategy to its current *INGDAN.com Commercialization + IC Component Trading Platform* dual business model. Since our IPO in 2014, the Cogobuy.com and INGDAN.com platforms have quickly grown the Company from an e-commerce business for IC components, into the comprehensive electronics manufacturing ecosystem we are today. We have built a community of enterprise decision makers and launched targeted marketing campaigns for potential customers. With our proprietary marketing data, the Company has been able to more effectively provide products and services to this subset of customers. Our unique model has increased the accuracy of our marketing, driving higher transaction volumes through its *social + e-commerce* design.

In 2017, we reaffirmed INGDAN.com's business model and hastened its commercialization and monetization. Over the past couple of years, we grew INGDAN.com into one of the largest AI and IoT innovation business platforms in China, which has now accumulated over 20,000 AI hardware and IoT innovation projects in key new industries including smart homes and cars, robotics, medtech, and new materials.

INGDAN.com's commercialization has been successful in three areas: increasing Cogobuy.com's IC components sales by directing INGDAN.com user traffic to the site; boosting sales of INGDAN.com-branded AI hardware products backed by the *Kepler system* and becoming a lead player in the AI+ industrial automation bloom; and incubating the highest potential projects by providing supply chain, technology, and sales services in exchange for equity.

IngDan Labs has taken up a paramount role in validating the Company's latest business model. Since its launch two years ago, we have positioned IngDan Labs as a provider of AI core technologies. In 2017, we announced the launch of our *Kepler system* to better match and connect Chinese companies with world class leading AI technologies. During 2017, we successfully launched core modules for cloud computing, visual, and voice recognition systems. Additionally, our new AI hardware sales business has helped make the INGDAN.com platform an even stronger source for new business and profits.

Looking ahead to 2018, we see intelligent manufacturing upgrades and AI+ industrial automation creating tremendous opportunities for us. We will focus heavily on continuing to transform IngDan Labs and grow its market share, positioning ourselves to better capture the market supported by growth in intelligent manufacturing and favorable national policy. We plan to grow our direct sales business platform by expanding our partnerships with leading suppliers. We will also leverage IC direct sales to better commercialize INGDAN.com, grow our client base, and bring in more revenue.

In addition to our new dual business model, we will take a cautious approach in our development to maintain a healthy liquidity position. The Group will continue to seek merger and acquisition targets with strong growth potential and synergies with our current businesses. With our leading position in the multi-trillion RMB IC components market and the AI hardware and intelligent manufacturing services markets, we are confident that Cogobuy Group's new model will accelerate our growth in the coming years and allow us to create better value for our Shareholders.

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

KANG Jingwei, Jeffrey
Chief Executive Officer and Chairman of the Board

Hong Kong, March 27, 2018

Business Review and Outlook

Overall Business and Financial Performance of the Group

We are a leading e-commerce company dedicated to serving the electronics manufacturing industry in China. Through our e-commerce platforms, including a direct sales platform, an online marketplace and our INGDAN.com platform, along with a dedicated team of technical consultants and professional sales representatives, we provide our customers with comprehensive online and offline services across the supply chain, from pre-sale, sale to post-sale stages. We serve electronics manufacturers including small and medium enterprises ("**SMEs**"), which we believe represent a lucrative and fast-growing segment of the integrated circuits ("**IC**") and other electronic components market with a significant demand for our services.

According to a research conducted by Qianzhan Industry Institute (前瞻產業研究院), the total market output of China intelligent manufacturing surpassed RMB1.5 trillion in 2017, and is expected to grow at accelerated speed in the next few years. We believe that, leveraging our early-mover advantage, we are well positioned to benefit from the significant growth potential of China's IC and other electronic components procurement market and the industry's growing demand for upgrade and innovation. To better serve and support various aspects of the electronics manufacturing industry in China, we are extending beyond the IC and other electronic components procurement market and are starting to offer additional products and services, such as various tools and applications offered through our cloud computing system. We believe that we can also drive our own long-term growth by fostering the development of an open, collaborative and prosperous e-commerce ecosystem that benefits the business operation of our customers and suppliers as a whole.

We derive our revenue substantially from direct sales of IC and other electronic components. We source high quality IC and other electronic components from leading suppliers around the world and sell them at competitive prices to both SME and blue-chip electronics manufacturers in China through our direct sales platform and dedicated sales representatives, who work closely with our customers to understand their needs, provide technical consultation and help support their procurement function. We also operate an online marketplace that allows third-party merchants to sell their products to our customers to complement our direct sales platform.

We have built a large community of engineers and technical professionals who are able to contribute to the procurement decisions of electronics manufacturers. The procurement decisions of a Chinese electronics manufacturer are often made by a handful of its key personnel, many of whom are engineers and technical professionals. Accordingly, we target our marketing efforts at those professionals, aiming to form and enhance the sense of community among them.

We have developed a service model to streamline and complement the complex online and offline procurement system of the electronics manufacturing industry in China. Through a combination of offline and online customer engagement, we have been able to attract and retain electronics manufacturers that work with our sales and customer service teams and through our web and mobile e-commerce platform to efficiently search and define purchase order specifications, as well as execute and manage related procurement processes.

We also launched INGDAN.com in September 2013. Positioning as a major innovation business platform in the IoT era, INGDAN.com has now become one of the leading intelligent hardware innovation business platform in China, and is committed to becoming the most successful one of its kind in the world to provide one-stop service on supply chain to innovation startups worldwide. The development of the IoT industry has now been raised as a national strategy by various countries, and many technology giants have been accelerating their pace to enter into this promising industry. As reported by researcher International Data Corporation (IDC), global IoT spending is expected to reach US$1.29 trillion by 2020, representing a compound annual growth rate (CAGR) of 15.6% between 2015 and 2020. Meanwhile, the Ministry of Industry and Information Technology of the PRC sets a target for the size of the IoT industry to exceed RMB1.5 trillion by 2020.

Previously, we have defined five markets to be developed in depth to build an ecosystem, including robotics, smart cars, smart homes, medtech and new materials. Cogobuy.com and INGDAN.com have entered these industries, the deepened development of which will not only bring us more new business opportunities, but also further improve INGDAN.com's monetization strategies and enhance its industry reputation. INGDAN.com emphasizes serving innovative SMEs in emerging industries, as well as providing smart upgrade services to traditional enterprises. Using IC components business as an entry point, we will gradually expand to a higher value-added service system that will include hardware modules, technical support, software, and supply chain finance and solutions. In the future INGDAN.com platform will use the proprietary products developed by IngDan Labs under its own brand, and the resources from its community ecosystem and the industry to help the platform to realize commercialization while profit on the provision of corporate services, sales of its proprietary AI products and incubation investments.

Well-positioned to offer more value-added services, we commenced our supply chain financing business in September 2014 whereby we earn interest income for providing certain financial services to third-party manufacturers, including provision of working capital financing programs. In December 2016, we extended our supply chain financing business and established a new business unit — IngFin Financing Services. With our newly launched IngFin Financing Services business, we aim to increase investments in the big-data based enterprise financing business, including loans to third parties for investment initiatives and other enterprise financing services. IngFin Financing Services is a good demonstration to show our strengths to generate new revenue stream by providing additional services based on the Group's existing platform. During the Reporting Period, GMV contributed by the provision of loans through our IngFin Financing Services reached RMB4.8 billion.

Future Prospects

Our goal is to become the leading service provider of the AI and IoT era using our e-commerce platforms to serve China's unique value proposition industry. We intend to pursue the following growth strategies to achieve our goal:

I. Capture Opportunities in Intelligent Manufacturing Upgrades and AI+ Industrial Automation

Intelligent manufacturing upgrades and AI+ industrial automation centered on the new favorable national policy of "Made in China 2025" present tremendous market opportunities. Backed by cloud computing, the integration of automatic control systems for machines and production lines, Manufacturing Execution Systems (MES) of factories and Enterprise Resource Planning (ERP) systems bridges the gap between information and automation system, and optimizes the manufacturing capabilities of factories and companies. According to the report of China Academy of Information and Communications Technology (CAICT), China's robotics technology and peripheral services market share is expected to reach RMB379 billion by 2020, representing 70% of global market output. As the world's fastest-growing market for industrial robot sales, we anticipate great demand for AI hardware business from various industries. We plan to accelerate the AI and IoT hardware product design and product commercialization development of IngDan Labs to take advantage of the opportunities presented by the favorable national policy and the rise in intelligent manufacturing and online migration of traditional industries, and to expand INGDAN.com's market share.

II. Enhance Monetization Rate of INGDAN.com Platform

We intend to further increase the monetization rate of INGDAN.com by developing it to an important innovation and entrepreneurship platform of the AI and IoT era. INGDAN.com acquires a myriad of customers, demands and data online, and monetizes transactions by supply chain resources and other corporate services offline. This creates synergy that drives a greater contribution by INGDAN.com to the Group in the future. On one hand, we have established a new business unit, namely IngFin Financing Services, through which, we will offer big-data based supply chain financing products as well as other corporate financing products. On the other hand, we plan to transform our corporate development strategy to the "INGDAN.com Commercialization + IC Component Trading Platform" dual business model. As INGDAN.com commercialization projects have become more sophisticated, especially in AI for industrial robotics and smart cars areas, the platform will contribute significant momentum to the Group's performance. We plan to further enhance the Group's performance through the offer of value-added services including but not limited to the provision of corporate and technology services and investment services such as incubation programs.

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

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

IV. Further Enhance Customer Loyalty and Increase Purchases Per Customer

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

V. Pursue Strategic Partnerships and Acquisition Opportunities

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

Management Discussion and Analysis

Overview

For the year ended December 31, 2017, profit of the Group amounted to RMB301.3 million, representing a decrease of RMB208.3 million as compared with RMB509.6 million in 2016. Profit attributable to equity shareholders of the Company amounted to RMB302.0 million, representing a decrease of RMB176.8 million compared with RMB478.8 million in 2016.

Revenue

For the year ended December 31, 2017, revenue of the Group amounted to RMB9,613.7 million, representing a decrease of RMB3,319.1 million or 25.7% as compared with RMB12,932.8 million in 2016. The Group's revenue comprised RMB9,364.5 million of direct sales revenue, RMB75.6 million of marketplace revenue and RMB173.7 million of IngFin Financing Services revenue. The decrease was primarily due to an unexpected challenge occurred in May 2017, which the malicious short selling reports about the Company caused banks in Hong Kong to tighten the credit facilities granted to the Group, resulting in a sudden disruption of liquidity. In the process of reducing the procurement and repaying bank debts, the Group's IC components direct sales revenue in the second half of 2017 significantly decreased by RMB3,855.3 million when compared to the same period in 2016. This great impact on IC components direct sales business mainly contributed to the decrease in revenue of the Group for the year ended December 31, 2017. The decrease in revenue, which incurred entirely in the second half of 2017, was partly offset by an increase in direct sales revenue of RMB390.7 million for the first half of 2017 when compared to the same period in 2016 and an increase in IngFin Financing Services revenue of RMB154.7 million.

Cost of Revenue

Cost of revenue for the year ended December 31, 2017 was RMB8,843.5 million, representing a decrease of 25.5% from RMB11,870.3 million for the year ended December 31, 2016. The decrease in cost of revenue was due to decrease in direct sales revenue for the reasons described above.

Gross Profit

Gross profit for the year ended December 31, 2017 was RMB770.2 million, representing a decrease of 27.5% from RMB1,062.5 million compared with the figures in 2016. The decrease in gross profit amount was primarily driven by the results of direct sales revenue and cost of revenue for the reasons described above.

Other Income

For the year ended December 31, 2017, other income of the Group amounted to RMB74.3 million, representing an increase of RMB8.8 million or 13.5% as compared with RMB65.5 million in 2016. This was primarily due to more bank interest income earned for the year of 2017 when compared to 2016.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended December 31, 2017 amounted to RMB138.2 million, representing a decrease of RMB79.9 million or 36.6% from RMB218.1 million in 2016. This was primarily due to decreased selling expenses as a result of decreased direct sales revenue and reduced marketing costs as a result of adjustments in marketing strategies.

Research and Development Expenses

Research and development expenses for the year ended December 31, 2017 amounted to RMB118.3 million, representing an increase of RMB55.7 million or 89.0% from RMB62.6 million in 2016. This was primarily due to more expenses spent on the research and development of AI products and technologies for IngDan Labs during 2017.

Administrative and Other Operating Expenses

During the year, administrative and other operating expenses amounted to RMB154.5 million, representing a decrease of RMB43.5 million or 22.0% from RMB198.0 million in 2016, which was primarily due to decrease in general administrative costs and employee headcounts.

Income Tax

Our income tax decreased by 39.8% from approximately RMB85.7 million for the year ended December 31, 2016 to approximately RMB51.6 million for the year ended December 31, 2017, primarily due to decrease in profit from operation as a result of decreased revenue and gross profit. The effective tax rate for the year ended December 31, 2017 was 14.6%, as compared to 14.4% for the year ended December 31, 2016.

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

For the year ended December 31, 2017, profit attributable to equity shareholders of the Company amounted to RMB302.0 million, representing a decrease of RMB176.8 million or 36.9% as compared to RMB478.8 million in 2016. The decrease was primarily due to a decrease in profit from operation as a result of decreased revenue and gross profit.

Liquidity and Source of Funding

As of December 31, 2017, the current assets of the Group amounted to RMB5,317.9 million, which mainly comprised cash and bank balances (including pledged deposits), inventories and trade and other receivables, in the amount of RMB2,233.2 million, RMB504.4 million and RMB1,635.8 million, respectively. Current liabilities of the Group amounted to RMB1,901.2 million, of which RMB1,084.1 million was bank loans, RMB213.0 million was trade and other payables and RMB589.2 million was deposits from customers. As of December 31, 2017, the current ratio (the current assets to current liabilities ratio) of the Group was 2.80, representing an increase of 67.7% as compared with 1.67 as of December 31, 2016. The change in the current ratio was primarily due to higher net cash balance resulting from improvement in working capital position.

The Group does not have other debt financing obligations as of December 31, 2017 or the date of this annual results announcement and does not have any breaches of financial covenants.

Capital Expenditure

For the year ended December 31, 2017, the capital expenditure of the Group amounted to approximately RMB0.8 million, representing a decrease of RMB10.4 million or 92.9% compared with RMB11.2 million in 2016. The decrease in the capital expenditure was primarily resulted from the plan of tighten budget for purchase of fixed assets for existing operation.

Net Gearing Ratio

As of December 31, 2017, the net gearing ratio of the Group, which was calculated by dividing net debt (total bank loans minus cash and cash equivalents and pledged deposits) by total equity was -31.6% as compared with 8.7% as of December 31, 2016. The decrease was primarily due to the decrease in bank loans as a result of significant repayment of bank borrowings in the second half of 2017.

Material Investments

The Group did not make any material investments for the year ended December 31, 2017.

Material Acquisitions and Disposals

For the year ended December 31, 2017, the Group disposed available-for-sale investments valued at RMB556.7 million, including RMB85.5 million of available-for-sale equity securities listed in Hong Kong and RMB471.2 million of investment in unlisted funds. The Group did not have any material acquisitions for the year ended December 31, 2017.

Pledge of Assets

Except for the pledged bank deposits of RMB184.8 million and RMB1,652.4 million as of December 31, 2017 and December 31, 2016, respectively, the Group did not pledge any assets for the year ended December 31, 2017. The pledged bank deposits represented deposits pledged to the banks to secure banking facilities granted to the Group.

Contingent Liabilities

Neither the Group nor the Company had any significant contingent liabilities as of December 31, 2017. As of December 31, 2017, the Company issued several guarantees to banks in respect of the banking facilities granted to subsidiaries of the Company. The maximum liability of the Company at the end of the Reporting Period under these guarantees issued is the outstanding amount of the bank loans drawn down by the subsidiaries. As of December 31, 2017, management of the Company did not consider it be probable that a claim will be made against the Company under any of the guarantees.

Events After the Reporting Period

On January 18, 2018, Cogobuy Group, Inc. (a wholly-owned subsidiary of the Company), MEGA SMART GROUP LIMITED ("**Cogobuy Sub**") and RICH WISDOM VENTURES LIMITED ("**KMT Automation Parent Co.**") entered into the share subscription agreement in relation to the acquisition of the entire equity interest in Shanghai KMT Electronic Technology Ltd. Co. 上海科姆特電子技術有限公司 ("**Shanghai KMT**") and Shanghai KMT Automation Control Technology Ltd. Co. 上海科姆特自動化控制技術有限公司 ("**Shanghai KMT Automation**") and certain assets owned by KMT Automation Parent Co., Shanghai KMT and Shanghai KMT Automation, by issuing 30% interest in Cogobuy Sub. Further details of the acquisition are set out in the announcement of the Company dated January 18, 2018.

Foreign Exchange Exposure

Foreign currency transactions during the year ended December 31, 2017 are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling as at December 31, 2017. Exchange gains and losses are recognized as profit or loss.

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

The results of operations with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Consolidated statements of financial position items are translated into RMB at the closing foreign exchange rates as at December 31, 2017. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

Review of our Consolidated Financial Information

We have established an audit committee in compliance with the Corporate Governance Code. The members of the audit committee have discussed with the management of our Company and reviewed the consolidated financial information of our Company for the financial year ended December 31, 2017 set out in this annual report.

Our Directors

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

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

Name	Age	Position	Date of Appointment as Director	Date of Joining the Group (including the predecessor entities)
KANG Jingwei, Jeffrey	48	Executive Director, Chairman, and Chief Executive Officer	March 2014	July 2000
WU Lun Cheung Allen	43	Executive Director, Chief Financial Officer and Company Secretary	March 2014	October 2003
NI Hong, Hope	45	Executive Director	March 2015	September 2010
YE Xin	54	Independent Non-executive Director	July 2014	July 2014
MA Qiyuan	61	Independent Non-executive Director	June 2017	June 2017
HAO Chunyi, Charlie	58	Independent Non-executive Director	February 2018	February 2018

Executive Directors

KANG Jingwei, Jeffrey (康敬偉), aged 48, is the founder and chairman of our Group, and was appointed as an Executive Director of our Company in March 2014. He has been appointed as our Chief Executive Officer since July 18, 2014. Mr. Kang is responsible for the overall strategic planning and business direction of the Group. Mr. Kang is also a director of the following companies of the Group:

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

— Comtech Broadband Corporation Limited.

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

WU Lun Cheung Allen (胡麟祥), aged 43, is the Chief Financial Officer and Company Secretary of our Group and was appointed as an Executive Director of our Company in March 2014.

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

NI Hong, Hope (倪虹), aged 45, is the Chief Investment Officer of our Group and was appointed as an Executive Director of our Company in March 2015. Ms. Ni is responsible for heading the Company's capital market activities and investment initiatives.

Ms. Ni is currently serving as an independent director of JA Solar Holdings, Co. Ltd., a NASDAQ listed company (NASDAQ: JASO), ATA Inc., a NASDAQ listed company (NASDAQ: ATAI) as a director of ATA Online (Beijing) Education Technology Co., Limited, a NEEQ listed company (NEEQ: 835079). Ms. Ni is also currently serving as an independent non-executive director of Digital China Holdings Limited (stock code: 861), a company listed on the Stock Exchange.

Previously, Ms. Ni served as a director of KongZhong Corporation, a company formerly listed on NASDAQ, from January 2007 to March 2017 and the chief financial officer and director of Viewtran from August 2004 to January 2008 and subsequently served as its vice chairman until early 2009. Prior to joining Viewtran, Ms. Ni spent six years serving as a practicing attorney at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong, specializing in corporate finance. Prior to that, Ms. Ni worked at Merrill Lynch's investment banking division in New York.

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

Independent Non-executive Directors

YE Xin (葉忻), aged 54, was appointed as an Independent Non-executive Director of our Company and a member of the audit, remuneration and nomination committees of our Company since July 18, 2014. Mr. Ye has been the chairman of the nomination committee of our Company since February 13, 2018. Mr. Ye received his bachelor of engineering degree (計算機科學與技術系) from Tsinghua University, China in June 1986, and a master of science degree in Computer Science from Marquette University in Wisconsin, United States in May 1988. From 2003 to 2006, Mr. Ye was the Chief Technology Officer of Linktone, a top wireless entertainment service provider in China. Since 2006, Mr. Ye was the chief executive officer of CASEE Mobile Ads (架勢無線), China's leading mobile advertising network for Android/iPhone applications and mobile content.

MA Qiyuan (馬啟元), PhD, aged 61, was appointed as an Independent Non-executive Director of our Company and a member of the audit, remuneration and nomination committees of our Company with effect from June 2, 2017. Dr. Ma has been the chairman of the remuneration committee of our Company since February 13, 2018. Dr. Ma is the Chairman and chief executive director of Time Medical System Corp., a leading technology innovator in medical imaging and service industry he founded in 2006. Dr. Ma has over 25 years of experience in R&D management in the US. Dr. Ma served as a professor at Columbia University from 1994 to 2000, Associate Professor of Harvard Medical School from 2000 to 2005 and Deputy Director of Magnetic Resonance Engineering Center of the University of Hong Kong from 1998 to 2004. Dr. Ma holds 25 patents and has published more than 200 papers. Dr. Ma is engaged in the field of microelectronic devices, superconducting technology, RF devices, biomedical electronics, and medical imaging.

Dr. Ma co-founded Semiconductor Manufacturing International Corporation (NYSE: SMI; SEHK: 981) (China's first major semiconductor company listed on NYSE and HKEX) in 2000 and remained an advisor since. Dr. Ma has been promoting the development of China's electronic industry, and has served as advisor in microelectronics to the Ministry of Information Industry of the Chinese government, and in hi-tech industry to the Beijing, Shanghai and Guangzhou governments.

Dr. Ma received his PhD in microelectronics from Columbia University in 1990, and SEP degree from Stanford Business School in 2003. Dr. Ma has been a board member of CIBR (Coalition for Imaging and Bioengineering Research) in the US since 2010.

HAO Chunyi, Charlie (郝純一), aged 58, was appointed as an Independent Non-executive Director of our Company, the chairman of the audit committee and a member of the remuneration and nomination committees of our Company with effect from February 13, 2018. Mr. Hao has been the chief executive officer and president of Shandong Haizhicheng Energy Engineering Co., Ltd., a pioneer in the research and development in new energy engineering projects, since 2015. Over the years, Mr. Hao has been instrumental in the founding and establishments of several investments funds and companies, including China Fundamental Acquisition Corporation, where Mr. Hao was the chief executive officer from 2008 to 2010, and Asia Automotive Acquisition Corporation, as a member of the board of directors and the President of China of from 2005 to 2008. Mr. Hao was the chief financial officer of Delphi Automotive Corp (Saginaw Steering System) ("**Delphi**") of General Motors Inc., and oversaw the financials of three joint ventures to Delphi headquarter in Beijing from 1995 to 1999.

Mr. Hao received his MBA degree from Pace University, Master of Arts from University of Notre Dame and Bachelor of Arts from Beijing Language and Culture University (北京語言大學).

Our Senior Management

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

Name	Age	Position
LI Feng	52	Senior vice-president
CHAN Edward	54	Vice-president of operations
LI Henry	50	Vice-president of business
WANG Vivia	34	Vice-President

LI Feng (李峰), aged 52, is the Senior Vice-president of the Company and is primarily responsible for development of Cogobuy.com, an e-commerce and social media marketing platform. Mr. Li received his bachelor of science degree in computer science from Tsinghua University, China in June 1987, and master of science degree in computer science from Marquette University in Milwaukee, United States in May 1989. Between 1990 and 1999, Mr. Li worked at Informix Software. Between 1999 and 2000, Mr. Li worked for Shanghai Siemens as its chief representative and project director. Between 2002 and 2006, Mr. Li served as the Chief Operating Officer of Viewtran Inc.

CHAN Edward (陳劍雄), aged 54, is the Vice-president of operations of the Company and is primarily responsible for general administrative operations of the Group, including human resources, customer service, logistics and warehousing. Mr. Chan received his bachelor of science degree in mechanical engineering from the University of Hong Kong, Hong Kong in November 1985. Between 1987 and 2002, Mr. Chan worked and later served as a senior manager of Panasonic Shun Hing Industrial Devices Sales (Hong Kong) Co., Ltd. Between 2004 and February 2013, Mr. Chan was the Vice president of operations of Viewtran, and was in charge of the company's customer administration and logistics operations.

LI Henry (李宏輝), aged 50, is the Vice-president of business of the Company and is primarily responsible for the overall business and market development of the Group. Mr. Li earned his bachelor of science degree in radio technology, and master of science degree in Telecommunication and Electronic System from Tianjin University, China in July 1989 and April 1992 respectively. In 1994, Mr. Li focused on teaching and research at Tianjin University. From June 1995 to September 1996, Mr. Li worked at Samsung Electronics Co., where he served as a researcher at ASIC R&D center. Mr. Li was the general manager (Business Unit) of Comtech Communication (SZ) from 2002 to 2013.

WANG Vivia (王巍), aged 34, is a Vice-president of the Company and is primarily responsible for the Company's investment and financing activities and is the head of IngFin Financing Services business. Ms. Wang received her BBA and MBA degrees from Tsinghua University, China in 2005 and 2007, respectively and has been a Chartered Financial Analyst (CFA) member since 2012. Ms. Wang has over 10 years of investment banking experience and worked at HSBC's investment banking department as an analyst from 2007 to 2008 and Bank of Communications as assistant relationship manager in 2009. Prior to joining the Company, Ms. Wang was an associate director at CCB International's China Business Division from 2010 to 2015, where she was in charge of eastern China's clients relationship management, sourcing deals for structured finance, IPO bond issuance and PIPE transactions.

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

Corporate Information

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

Principal Activities and Subsidiaries

The Company is a leading e-commerce company dedicated to serving the electronics manufacturing industry in China. Through its e-commerce platforms, including a direct sales platform, an online marketplace and its INGDAN.com platform, along with a dedicated team of technical consultants and professional sales representatives, the Group provides customers with comprehensive online and offline services across the supply chain, from pre-sale, sale to post-sale stages. Transaction customers who had completed at least one online transaction during 2017 and at least one other online transaction in 2016, reached 31,176, representing an increase of 50.6% as compared with 20,705 for the year ended December 31, 2016. In 2017, the Group fulfilled orders and derived a GMV of approximately RMB25.2 billion, of which 37.1% was derived from direct sales value, 44.1% from transaction value in online marketplace and 18.8% from loan value in supply chain financing business. The Group serves electronics manufacturers including SMEs, which it believes represents a lucrative and fast-growing segment of the IC and other electronic components market with a significant demand for its services. A list of the Company's major subsidiaries, together with their places of incorporation and principal activities, is set out in note 43 to the consolidated financial statements.

Business Review

The business review of the Group during the year ended December 31, 2017 (including an analysis of the Group's performance during the year using key performance indicators and a discussion of the Group's future business development) is set out in the Chairman's Statement on pages 5 to 6 of this annual report. A description of the principal risks and uncertainties facing the Company is set out on pages 19 to 20 of this Report of the Directors.

Compliance with the Relevant Laws and Regulations

As far as the Board of Directors and management are aware, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended December 31, 2017, there was no material breach of, or non-compliance, with the applicable laws and regulations by the Group.

Relationship with Employees

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

Relationship with Suppliers, Customers and other Stakeholders

The Group understands the importance of maintaining good relationships with its suppliers and customers to meet its immediate and long-term goals. Our customer service team is set up so that they can be easily reached and functions to enhance our relationships with customers. Our procurement and project management teams work closely with our suppliers to maintain reliable and high-quality product offerings. With the expansion of our INGDAN.com platform, the Group strives to provide one-stop supply chain services to all stakeholders in the hardware innovation industry. The Group is committed to upholding the highest ethical and professional standards when dealing with its suppliers and contractors. During the year ended December 31, 2017, there were no material and significant disputes between the Group and its suppliers, customers and other stakeholders.

Environmental Policies and Performance

The Group is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavors to comply with the applicable environmental laws and regulations and to adopt effective measures to ensure the efficient usage of resources, energy conservation and waste reduction. Such initiatives include the recycling of used papers, the adoption of energy saving measures, the exchange of unsold inventory for new products or credit with major suppliers, the adoption of electronics waste disposal procedures and the donation of old computers to a school in remote area of China. During the year ended December 31, 2017, we had not been subject to any fines or other penalties due to any non-compliance with health, safety or environmental regulations.

Corporate Governance

Information on the principal corporate governance practices adopted by the Company during the year ended December 31, 2017 is set out in the Corporate Governance Report on pages 42 to 52 of this annual report.

Principal Risks and Uncertainties

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

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

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

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

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

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

- We provide credit facilities to our customers to earn interest income through our IngFin Financing Services business and offer required payment terms to our direct sales customers, which expose us to credit risks. The value of the collaterals for secured loans we grant our customers may fluctuate due to market conditions or other unforeseen adverse occurrences. We may fail to identify high risk customers or detect unlawfulness due to negligence, procedural errors, fraud and/or misconduct committed by employees, customers or other third parties. In the event that such customer or counterparty fails to honor its financial or contractual obligations, we would suffer financial loss.

- We rely on credit facilities such as factoring arrangements granted by banks to partially fund our working capital. The banking industry is sensitive to changes in market and economic conditions and is highly susceptible to unforeseen external events, such as political instability, recession, inflation, changes in regulation, adverse market conditions, or other adverse occurrences that may result in a significant decline or other change in the credit facilities granted to us and put stress on our cash position which may necessitate us drawing on existing working capital facilities or other sources of liquidity.

- We have credit facilities in place with a syndicate of lenders. The facilities contain financial and negative covenants, undertakings and event of default provisions. Moreover, the facilities contain cross-default provisions such that a default under another debt instrument could result in a default under the credit facilities and acceleration of the debt thereunder. Any failure to comply with the terms of our credit facilities, or any cross-default, could prevent us from drawing under such credit facilities to satisfy our working capital or other requirements or result in acceleration or cross-acceleration of the amounts owed under such credit facilities. Any such event could have a material adverse effect on our business, financial condition and results of operations.

Directors

The Directors during the year ended December 31, 2017 and up to the date of this report were:

Executive Directors:

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

Non-executive Directors:

Mr. GUO Jiang *(resigned on September 1, 2017)*
Mr. KIM Jin Ha, Jason *(appointed on June 2, 2017 and resigned on February 13, 2018)*

Independent Non-Executive Directors:

Mr. ZHONG Xiaolin, Forrest *(resigned on February 13, 2018)*
Mr. YE Xin
Mr. YAN Andrew Y. *(appointment expired on June 2, 2017)*
Dr. MA Qiyuan *(appointed on June 2, 2017)*
Mr. HAO Chunyi, Charlie *(appointed on February 13, 2018)*

In accordance with articles 82(3), 84(1) and (2) the Articles of Association, Ms. Ni Hong, Hope, Mr. Ye Xin, Dr. Ma Qiyuan and Mr. Hao Chunyi, Charlie shall retire at the annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

Mr. Kang Jingwei, Jeffrey and Mr. Wu Lun Cheung Allen have entered into the service agreements with our Company pursuant to which they agreed to act as Executive Directors for a term of three years commencing on June 2, 2017 or until the third annual general meeting of our Company since the date of their service agreements (whichever is sooner, subject always to re-election as and when required under the Articles of Association) or until terminated in accordance with the service agreements. The Company has the right to give written notice to terminate the agreement.

Mr. Ye Xin, Dr. Ma Qiyuan and Mr. Hao Chunyi, Charlie have signed the letters of appointment with our Company. The term of office of our Independent Non-executive Directors is three years with effect from June 2, 2017 for Mr. Ye Xin and Dr. Ma Qiyuan and February 13, 2018 for Mr. Hao Chunyi, Charlie or until the third annual general meeting of our Company since the date of their letters of appointment (whichever is sooner, subject to retirement as and when required under the Articles of Association) and subject to the terms and conditions specified in the appointment letters.

Ms. Ni Hong, Hope has signed the letter of appointment with our Company with effect from March 1, 2018 for a period of three years (subject always to retirement as and when required under the Articles of Association) unless otherwise terminated in accordance with the terms and conditions specified in the appointment letter.

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

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

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group are set out in notes 13 and 14 to the consolidated financial statements, respectively. None of the Directors has waived or agreed to waive any emoluments during the year ended December 31, 2017.

Directors' Interests in Contracts and Competing Businesses

Save as disclosed in note 36 to the consolidated financial statements headed "Related Party Transactions" and the section headed "Continuing Connected Transactions" of this annual report below, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ending December 31, 2017.

During the year ended December 31, 2017, none of the Directors nor the Controlling Shareholders of the Company engaged in any business that competed or might compete, either directly or indirectly, with the business of the Group.

Contracts of Significance with Controlling Shareholders

No contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2017.

Confirmation of Independence of Independent Non-Executive Directors

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

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and Any Associated Corporation

As at December 31, 2017, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executives are taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; (iii) required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) disclosed according to the knowledge of the Directors of the Company were as follows:

(i) Interests in the Shares of our Company

Name of Director	Nature of interest	Number of Shares[1]	Approximate percentage of shareholding
Mr. Kang	Interest of controlled corporation[2]	700,200,000	47.59%
Mr. Kang	Beneficial owner	1,800,000	0.12%
Mr. Wu	Beneficial owner	1,800,000	0.12%

Notes:

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

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

(3) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as at December 31, 2017.

(ii) Interests in the associated corporation

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

Notes:

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

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

Save as disclosed above, as at December 31, 2017, so far as is known to any Director or the chief executive of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations which were (i) required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including the interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2017, so far as the Directors are aware, the following substantial Shareholders have interests and short positions in the Shares and underlying Shares of the Company, which have been recorded in the register of substantial Shareholders required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

Name	Nature of Interest	Number of Shares[(1)]	Approximate percentage of interest in the Company[(4)]
Envision Global	Beneficial owner	700,200,000	47.59%
Mr. Kang[(2)]	Interest of a controlled corporation	700,200,000	47.59%
Mr. Kang	Beneficial owner	1,800,000	0.12%
Da Cheng	Investment Manager	73,650,000	5.01%
Total Dynamic	Beneficial owner	182,888,000	12.43%
Ms. Yao[(3)]	Interest of a controlled corporation	182,888,000	12.43%

Notes:

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

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

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

(4) The percentage is for illustrative purpose only and is calculated based on the number of Shares in issue as at December 31, 2017 (without taking into account the Shares to be issued pursuant to the RSU Scheme).

Save as disclosed above, as at December 31, 2017, the Directors have not been notified by any person who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Permitted Indemnity Provisions

During the year ended December 31, 2017 and up to the date of this annual report, the Group has in force indemnity provisions for the benefit of the Directors of the Company or its associated companies. Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles of Association.

Remuneration Policy

As at December 31, 2017, the Group had approximately 493 full-time equivalent employees. Employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications, competence and contribution to the Group.

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

The Company also has an RSU scheme.

The total remuneration cost incurred by the Group for the year ended December 31, 2017 was RMB184.3 million (2016: RMB186.8 million).

RSU Scheme

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

The grant of the RSUs recognized the contribution of the Scheme Companies' directors, executive officers, senior managers and employees to the historical achievements of the Company. The Company has the intention to continue exploring ways to incentivise, retain and reward Scheme Companies' directors, executive officers, senior management and employees and may implement other RSU schemes or other share-based remuneration schemes in the future. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. To satisfy the grant of Shares under the scheme, 6,000,000 ordinary Shares of the Company were issued in aggregate on February 1, 2017.

Details of the movement of the RSUs granted pursuant to the RSU Scheme to the Directors and employees during the year ended December 31, 2017 are set out below:

Name of participants	Date of award	Number of Shares underlying the RSUs granted	Vested as at December 31, 2017	Unvested as at December 31, 2017	Vesting Period
Directors					
Mr. Kang	March 1, 2014	1,800,000	1,800,000	–	600,000 Shares in each of 2014, 2015 and 2016 (in quarterly installments)
Mr. Wu	March 1, 2014	1,800,000	1,800,000	–	600,000 Shares in each of 2014, 2015 and 2016 (in quarterly installments)
Other grantees					
Other grantees with a vesting period of three years (note 1)	March 1, 2014	19,346,300	18,071,300	–	One-third of the entitlement in each of 2014, 2015 and 2016 (in quarterly installments)
Other grantees with a vesting period of one year (note 2)	March 1, 2014	7,253,700	6,423,200	–	December 31, 2014
Other grantees with a vesting period of three years (note 3)	July 8, 2015	17,940,000	12,547,500	3,352,500	12 quarterly installments (from July 8, 2015 to July 7, 2018)
Other grantees with a vesting period of three years	February 1, 2017	6,000,000	1,500,000	4,500,000	12 quarterly installments (from February 1, 2017 to January 31, 2020)

Note 1: As at December 31, 2017, 1,275,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

Note 2: As at December 31, 2017, 830,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

Note 3: As at December 31, 2017, 2,040,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

Equity-Linked Investments

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

Changes in Information of Directors

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

Ms. Ni Hong, Hope
Ms. Ni has ceased to be an independent director of KongZhong Corporation, a company listed on NASDAQ Stock Market (Stock code: KZ) with effect from March 2017. The company subsequently went private on April 13, 2017 and is no longer listed on the NASDAQ Stock Market.

Ms. Ni has been appointed as a director of ATA Online (Beijing) Education Technology Co., Limited, a NEEQ listed company (Stock code: 835079) with effect from July 2015.

Mr. Guo Jiang
Mr. Guo resigned as a Non-executive Director of the Company effective from September 1, 2017.

Mr. Hao Chunyi, Charlie
Mr. Hao has been appointed as an Independent Non-executive Director, the chairman of the audit committee, a member of the remuneration committee and the nomination committee of the Company effective from February 13, 2018.

Mr. Kim Jin Ha, Jason
Mr. Kim was appointed as a Non-executive Director of the Company effective from June 2, 2017 and resigned on February 13, 2018.

Mr. Yan Andrew Y
Mr. Yan ceased to be an Independent Non-executive Director of the Company and a member of the remuneration committee, nomination committee and audit committee of the Company effective from June 2, 2017.

Mr. Zhong Xiaolin, Forrest
Mr. Zhong resigned as an Independent Non-executive Director of the Company and ceased to be the chairman of the remuneration committee, nomination committee and audit committee of the Company effective from February 13, 2018.

Mr. Ye Xin
Mr. Ye has been appointed as the chairman of the nomination committee of the Company effective from February 13, 2018.

Dr. Ma Qiyuan
Dr. Ma has been appointed as the chairman of the remuneration committee of the Company effective from February 13, 2018.

Save as mentioned above, there is no other change in the Directors' information required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of publication of the 2017 interim report.

Financial Results

The results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 69 and 70 of this annual report. The financial highlights for the Group for the most recent five years are set out on pages 156 and 157 of this annual report.

Liquidity and Source of Funding

Details of the liquidity and source of funding are set out in the management discussion and analysis on page 12.

Capital Structure

Details of the capital structure are set out in the note 32 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 32 to the consolidated financial statements.

Reserves

Details of the movements in the reserves of the Company and the Group during the year ended December 31, 2017 are set out in note 42 to the consolidated financial statements and the consolidated statement of changes in equity on page 73 of this annual report.

Dividends

The Board does not recommend the distribution of a final dividend for the year ended December 31, 2017 (2016: nil).

Donations

During the year ended December 31, 2017, the Group has not made any charitable and other donations (2016: RMB100,000).

Foreign Exchange Exposure

Details of the foreign exchange exposure are set out in the management discussion and analysis on page 13.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2017 are set out in note 30 to the financial statements.

Purchase, Sales or Redemption of Our Company's Shares

During the year ended December 31, 2017, the Company repurchased an aggregate of 12,227,000 Shares (2016: 39,179,000 Shares) of its own issued ordinary share capital through the Stock Exchange at an aggregate consideration of HK$117.8 million (2016: HK$441.6 million) (equivalent to RMB105.5 million (2016: RMB381.7 million)).

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

All the Shares repurchased were cancelled, of which 413,000 Shares were cancelled on February 3, 2017, 1,470,000 Shares were cancelled on March 3, 2017, 6,949,000 Shares were cancelled on June 9, 2017 and 3,395,000 Shares were cancelled on July 6, 2017.

Further details of the Share repurchase and other movements in the share capital of the Company during the year are set out in note 32 to the financial statements.

Save for the aforesaid, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the year ended December 31, 2017.

Use of Proceeds from the Listing

The net proceeds from the Company's issue of new Shares in its initial public offering (after deducting expenses relating specifically to the issue of new Shares in the initial public offering and expenses relating generally to the listing of all the Shares of the Company, whether existing or new, included underwriting fee of approximately RMB49,466,000) amounted to approximately HK$1,313,168,000 (equivalent to approximately RMB1,046,070,000). As at December 31, 2017, the net proceeds from the initial public offering had been utilized as follows:

	Planned amount per Prospectus	Amount utilized up to June 30, 2017	Amount utilized up to December 31, 2017	Balances as at December 31, 2017
		(RMB in millions, unless specified)		
Expanding our marketing and promotion activities	366.1	366.1	–	–
Expanding and enhancing of our e-commerce platform, investing in our technology infrastructure, as well as for conducting other research and development activities	313.8	192.5	259.7	54.1
Funding potential acquisitions of, or investment in, technologies and complementary online business, partnerships and licensing opportunities	261.5	261.5	–	–
Working capital and other general corporate purposes	104.6	104.6	–	–

Use of Proceeds from the Placing

On September 22, 2016, the Company had completed a placing of an aggregate of 160,420,232 new Shares at a placing price of HK$12.5 per Share, representing (i) a discount of approximately 0.16% to the closing price of HK$12.52 per Share as quoted on the Stock Exchange on September 1, 2016, being the date of the placing agreement, (ii) a premium of approximately 2.59% to the average closing price of approximately HK$12.18 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of the placing agreement and (iii) a premium of approximately 2.09% to the average closing price of approximately HK$12.24 per Share as quoted on the Stock Exchange for the twenty trading days immediately preceding the date of the placing agreement. An aggregate of 160,420,232 new placing shares, representing approximately 10.60% of the enlarged issued share capital of the Company immediately after completion, have been successfully placed to not less than six placees who and whose ultimate beneficial owner(s) are third parties independent of the Company. Placees included Da Cheng, Lindeman Asia Global Pioneer Private Equity Fund No. 11 (with the National pension service, Korea Development Bank, Korea Teachers' Credit Union, Korea Post being its ultimate investors), China Reinsurance (Group) Corporation, The People's Insurance Company (Group) of China Limited, New China Asset Management (Hong Kong) Limited and 重慶高新創投兩江品牌汽車產業投資中心(有限合夥).

The net proceeds from the placing of new Shares amounted to approximately HK$2,000 million (equivalent to approximately RMB1,719.9 million), after deduction of the placing commission and other related expenses. The Company has fully utilized the net proceeds from the placing as general working capital of the Group. It is estimated that net proceeds of RMB690.1 million has been utilized in the year ended December 31, 2017 (2016: RMB1,029.8 million).

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

Please refer to the Company's announcements dated September 1, 2016 and September 22, 2016 for further details of the placing.

Net Gearing Ratio

Details of the net gearing ratio are set out in the management discussion and analysis on page 12.

Contingent Liabilities

Details of the contingent liabilities are set out in the note 35 to the financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment during the year are set out in note 17 to the financial statements.

Property Held for Development, Sale or Investment

There is no property held for development, sale or investment for which the percentage ratios (as defined under rule 14.04(9) of the Listing Rules) exceed 5% as at December 31, 2017.

Significant Investments Held

The Company held available-for-sale investments amounted to RMB20.9 million as at the year ended December 31, 2017.

Connected Transactions

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

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

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

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

Mr. Kang Jingwei, Jeffrey is the Chairman, Chief Executive Officer and an Executive Director of the Company. Mr. Kang holds approximately 47.71% of the total issued share capital of the Company and is a Controlling Shareholder. Comtech Communication and Shenzhen Comtech are indirect wholly-owned subsidiaries of Envision Global, which in turn is owned by Mr. Kang as to 100%. Comtech Communication and the Shenzhen Comtech are therefore associates of Mr. Kang and connected persons of the Company.

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

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

Continuing Connected Transactions

Updates in relation to the Qualification Requirement

At the time of adoption of the contractual arrangements by the Company, under the subsequent effective PRC law, the value-added telecommunications business of Shenzhen Cogobuy (i.e., the e-commerce business) was subject to restriction on the percentage of foreign ownership under the Guiding Catalogue for Foreign Investment Industries of 2011 (the "**2011 Catalogue**") and the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises promulgated by the State Council on December 11, 2001, which were subsequently amended on September 10, 2008 and February 6, 2016, respectively (the "**FITE Regulations**"), that is, foreign investors were not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including internet content provision services.

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

On March 10, 2015, the Guiding Catalogue for Foreign Investment Industries of 2015 (the "**2015 Catalogue**") was promulgated and has replaced the 2011 Catalogue after it came into effect on April 10, 2015; and the 2015 Catalogue was later replaced by the *Guiding Catalogue for Foreign Investment Industries of 2017* (the "**2017 Catalogue**"), which became effective on July 28, 2017. Further, on June 19, 2015, the Ministry of Industry and Information Technology ("**MIIT**") promulgated the Circular on Lifting the Restriction on Foreign Shareholding in Online Data Processing and Transaction Processing Services (Operational E-commerce Businesses) (MIIT [2015] No. 196) (the "**196 Circular**"), which came into immediate effect on the date of promulgation. According to the 2015 Catalogue (and the subsequent 2017 Catalogue) and the 196 Circular, the restriction on foreign ownership (i.e., not to exceed 50%) has been lifted for e-commerce businesses, which means that foreign-invested companies with 100% foreign ownership are now able to carry out the e-commerce business.

However, in spite of the changes brought about by the 2015 Catalogue (and the subsequent 2017 Catalogue) and the 196 Circular, it is not certain whether the Company can operate the business of Shenzhen Cogobuy without the contractual arrangements because the Qualification Requirement remains existent and unchanged.

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

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

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

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

As of December 31, 2017, the Company has no further update to disclose in relation to the Qualification Requirement.

Contractual Arrangements

Reasons for the Contractual Arrangements

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

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

Risks relating to the Contractual Arrangements

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

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

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

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

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

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

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

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

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

Mitigation actions taken by the Company

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

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

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

Contractual Arrangements

During the year ended December 31, 2017, the Group engaged in the following Contractual Arrangements.

1. Master Exclusive Service Agreement

Nature and purpose of the agreement

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

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

Pricing

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

Term of the agreement

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

2. Business Cooperation Agreement

Nature and purpose of the agreement

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

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

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

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

Term of the agreement

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

3. Exclusive Option Agreement

Nature and purpose of the agreement.

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

Term of the agreement

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

4. Share Pledge Agreement

Nature and purpose of the agreement

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

Term of the agreement

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

5. Proxy Agreement and Power of Attorney

Nature and purpose of the agreement

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

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

Term of the agreement

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

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced by the Group with Shenzhen Cogobuy and Ms. Yao during the year ended December 31, 2017. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2017.

For the year ended December 31, 2017, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the structured contracts under the Contractual Arrangements has been removed.

Revenue and Assets subject to the Contractual Arrangements

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

	Year ended December 31, 2017 RMB'000	Year ended December 31, 2016 RMB'000
Revenue	**37,187**	61,567
Profit for the year	**16,630**	30,386

	As at December 31, 2017 RMB'000	As at December 31, 2016 RMB'000
Total assets	**91,510**	85,386

For the year ended December 31, 2017, the revenue and profit for the year of Shenzhen Cogobuy amounted to approximately 0.4% (2016: 0.5%) and 5.5% (2016: 6.0%) of the revenue and profit for the year of the Group respectively.

As at December 31, 2017, the total assets of Shenzhen Cogobuy amounted to approximately 1.7% (2016: 1.0%) of the total assets of the Group.

Waiver from the Stock Exchange and Annual Review

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

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

Our Independent Non-executive Directors reviewed the Contractual Arrangements and confirmed that: (i) the transactions carried out during the year ended December 31, 2017 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by Shenzhen Cogobuy has been substantially retained by Cogobuy E-commerce; (ii) no dividends or other distributions have been made by Shenzhen Cogobuy to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) no new contracts have been entered into, renewed or reproduced between our Group and Shenzhen Cogobuy during the year ended December 31, 2017.

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

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended December 31, 2017 has been provided by the Company to the Stock Exchange.

Management Contracts

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

Customers and Suppliers

Our customers primarily consist of electronics manufacturers based in China. One of our customers accounted for more than 10% of our revenue for the year ended December 31, 2017 (2016: 1).

As of December 31, 2017, we had a strong network of suppliers, including some of the top suppliers in key product categories, such as Intel for cloud/data center, Broadcom and SanDisk for smart mobile device components, Xilinx's field-programmable gate arrays for medical equipment, railway, crypto currency and data center, Microchip for energy meters, Winbond for industrial networking, auto components and consumer electronics, and Richwave for wireless router, IOT and mobile products. For the year ended December 31, 2017, our five largest suppliers in aggregate accounted for 49.1% of our cost of revenue and our largest supplier accounted for 17.7% of our cost of revenue. None of our Directors, their respective associates, or any Shareholder, to the knowledge of our Directors, owns more than 5% of our issued capital or has any interest in any of our five largest suppliers.

Sufficiency of Public Float

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

Pre-Emptive Rights

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

Litigation

As of December 31, 2017, the Company was not involved in any material litigation or arbitration. Nor were the Directors of the Company aware of any material litigation or claims that were pending or threatened against the Company.

Audit Committee

The audit committee has reviewed together with the management and the external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2017.

Auditor

The Company had engaged KPMG as its auditor between 2014 and 2017 until KPMG resigned as the auditor of the Company with effect from December 15, 2017. The Company has appointed SHINEWING (HK) CPA Limited ("**SHINEWING**") as the new auditor of the Company with effect from December 15, 2017. A resolution will be proposed for approval by Shareholders at the forthcoming annual general meeting to reappoint SHINEWING as the auditor of the Company.

Updates on Non-Compliance Matters

Certain lease agreements we entered into with respective PRC landlords had not been registered with the relevant government authorities due to the non-cooperation of the relevant landlords. Under relevant PRC laws and regulations, the relevant governmental authority may ask the parties to a lease to register the lease within a given period, and a fine ranging between RMB1,000 to RMB10,000 may be imposed on the parties to a lease for failing to rectify within the given period. During the period between the Listing Date and December 31, 2017, we had not been ordered by any authorities to register the lease agreements within a given period. In addition, the fine which may potentially be imposed as a result of the failure to register the relevant leases would be immaterial.

Our PRC Legal Advisor is of the view that the above incident is not material to our Group as a whole.

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

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

On behalf of the Board

Kang Jingwei, Jeffrey
Chairman

Hong Kong, March 27, 2018

Corporate Governance Practices

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

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

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

The Board is of the view that throughout the year ended December 31, 2017, the Company has complied with all of the code provisions as set out in the CG Code, save and except for the deviation from code provision A.2.1 as explained below.

Chairman and Chief Executive Officer

Deviation from code provision A.2.1:

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

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

Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Securities Dealing Code throughout the year ended December 31, 2017.

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

Board of Directors

The Board of the Company during the year ended December 31, 2017 and up to the date of this annual report is:

Executive Directors:

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

Non-executive Directors:

Mr. Guo Jiang *(resigned on September 1, 2017)*
Mr. Kim Jin Ha, Jason *(appointed on June 2, 2017 and resigned on February 13, 2018)*

Independent Non-executive Directors:

Mr. Zhong Xiaolin, Forrest *(resigned on February 13, 2018)*
Mr. Ye Xin
Mr. Yan Andrew Y *(ceased as director on June 2, 2017)*
Dr. Ma Qiyuan *(appointed on June 2, 2017)*
Mr. Hao Chunyi, Charlie *(appointed on February 13, 2018)*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 14 to 16 of this annual report.

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

Independent Non-executive Directors

Throughout the year ended December 31, 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

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

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

Ms. Ni Hong, Hope, Mr. Ye Xin, Dr. Ma Qiyuan and Mr. Hao Chunyi, Charlie will retire and be eligible for re-election at the forthcoming annual general meeting in accordance with the Articles of Association of the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are required to provide with their training records and to confirm their respective records on an annual basis.

During the year ended December 31, 2017, the Directors of the Company have attended seminars and training sessions arranged by professional/financial institutions, and have read relevant materials relating to regulatory updates. The relevant details are set out below:

	Training areas		
Name of Directors	**Corporate Governance**	**Legal and Regulatory**	**Business**
Executive Directors			
Kang Jingwei, Jeffrey	✓	✓	✓
Wu Lun Cheung Allen	✓	✓	✓
Ni Hong, Hope	✓	✓	✓
Non-Executive Directors			
Guo Jiang[(1)]	✓	✓	✓
Kim Jin Ha[(2)]	✓	✓	✓
Independent Non-Executive Directors			
Zhong Xiaolin[(3)]	✓	✓	✓
Ye Xin	✓	✓	✓
Yan Andrew Y[(4)]	✓	✓	✓
Ma Qiyuan[(5)]	✓	✓	✓
Hao Chunyi, Charlie[(6)]	N/A	N/A	N/A

Notes:

(1) resigned on September 1, 2017

(2) appointed on June 2, 2017 and resigned on February 13, 2018

(3) resigned on February 13, 2018

(4) ceased as director on June 2, 2017

(5) appointed on June 2, 2017

(6) appointed on February 13, 2018

Board Committees

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

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

Audit Committee

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

During the year ended December 31, 2017, the audit committee held three meetings to review interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, re-appointment of external auditors and relevant scope of works, connected transactions, 2018 full year audit plan, financial control and whistleblowing policy.

The audit committee also met the external auditor twice without the presence of the Executive Directors for the year ended December 31, 2017.

Remuneration Committee

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

During the year ended December 31, 2017, the remuneration committee met once to review and make recommendations to the Board on the remuneration policy and structure of the Company, and the remuneration packages of all the Directors and senior management and other related matters.

Details of the remuneration of the senior management by band are set out in note 13 in the "Notes to the Consolidated Financial Statements" on pages 116 to 118 of this annual report.

Nomination Committee

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

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

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

During the year ended December 31, 2017, the nomination committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors. The nomination committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

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

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

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

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

Corporate Governance Functions

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

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

Attendance Record of Directors and Committee Members

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended December 31, 2017 is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
Kang Jingwei, Jeffrey	4/4	N/A	N/A	N/A	1/1
Wu Lun Cheung Allen	4/4	N/A	N/A	N/A	1/1
Ni Hong, Hope	4/4	N/A	N/A	N/A	1/1
Guo Jiang[1]	2/3	N/A	N/A	N/A	1/1
Kim Jin Ha, Jason[2]	2/3	N/A	N/A	N/A	0/1
Zhong Xiaolin, Forrest	4/4	1/1	1/1	2/3	1/1
Ye Xin	4/4	1/1	1/1	3/3	1/1
Yan Andrew Y[3]	1/1	N/A	N/A	1/1	0/1
Ma Qiyuan[4]	2/3	1/1	1/1	2/2	0/1

Notes:

1. Mr. Guo Jiang resigned as a Non-executive Director on September 1, 2017. Three board meetings were held prior to his resignation.

2. Mr. Kim Jin Ha, Jason was appointed as a Non-executive Director on June 2, 2017 and resigned on February 13, 2018. Three board meetings and one general meeting were held during his term of service.

3. Mr. Yan Andrew Y's term of appointment has expired in June 2017 and he ceased to be an Independent Non-executive Director, a member of the audit committee, nomination committee and remuneration committee on June 2, 2017. A board meeting, one audit committee meeting and one general meeting were held prior to his term expired.

4. Dr. Ma Qiyuan was appointed as an Independent Non-executive Director, a member of the audit committee, nomination committee and remuneration committee on June 2, 2017 and was appointed as the chairman of the remuneration committee with effect from February 13, 2018. Three board meetings, two audit committee meetings, one nomination committee meeting, one remuneration committee meeting and one general meeting were held subsequent to his appointment.

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

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2017.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 63 to 68 of this annual report.

Risk Management and Internal Controls

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

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

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

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

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

All departments continuously assess and identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security and report to the management and direct the internal audit department to develop or refine policies and procedures to address such risks.

The management, working closely with department heads and the internal audit department, assessed the likelihood of risk occurrence, devised risk management plans, monitored the risk management progress, and reported to the audit committee and the Board on key issues and the effectiveness of the systems. Also, working closely with the management and department heads, the internal audit department develops and refines policies and procedures for each applicable operational and financial process, which may include approvals, authorisation, verification, recommendations, performance reviews, asset security, and segregation of duties as appropriate. Each department conducts regular evaluations to confirm that control policies are properly complied with.

The management has provided a confirmation to the Board on the effectiveness of the risk management and internal control systems for the year ended December 31, 2017.

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

The Board, as supported by the audit committee as well as the management report and internal audit findings, has conducted a review on the risk management and internal control systems of the Company and its subsidiaries for the year ended December 31, 2017. Such review covered the areas of financial, operational, compliance control and risk management of the Group. The Board considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing Policy

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

Information Disclosure Policy

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

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

Auditor's Remuneration

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended December 31, 2017 is disclosed in note 12 of the "Notes to the Consolidated Financial Statements" on page 115 of this annual report. There were no non-audit services provided during the year ended December 31, 2017.

Company Secretary

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

According to Rule 3.29 of the Listing Rules, the Company Secretary has confirmed that he has taken no less than 15 hours of professional training to update his skills and knowledge for the year ended December 31, 2017.

Shareholders' Rights

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

Procedures for Shareholders to Put Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company, for the attention of the Board of Directors by mail to 11/F Microsoft Comtech Tower, No. 55 Goaxin South 9th Road, High-Tech Industrial Park, Nanshan, Shenzhen 518057, PRC or by email to ir@cogobuy.com. The Company will not normally deal with verbal or anonymous enquiries.

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

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

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

Procedures for Shareholders to Put Forward Proposals at General Meeting

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

Contact Details

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

Address:	11/F Microsoft Comtech Tower, No. 55 Goaxin South 9th Road, High-Tech Industrial Park, Nanshan, Shenzhen 518057, PRC (For the attention of the Chief Investor Relations Officer)
Fax:	+86 (755) 2674 4090
Email:	ir@cogobuy.com

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

Communication with Shareholders and Investors/Investor Relations

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

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

This Environmental, Social and Governance ("**ESG**") Report summarizes the initiatives, programmes and performance of the Group while demonstrating its commitment to sustainability. For information concerning corporate governance, please refer to the relevant parts of the Company's annual report. The ESG Report covers the period from 1 January 2017 to 31 December 2017.

The core businesses of the Company are the direct sales of integrated circuits and other components on its e-commerce platform in the PRC; offering this platform to third-party merchants; and providing supply chain financing services. This ESG Report covers the core operations in China and the management office in Hong Kong.

The Board of Directors of the Group recognizes the importance of a strong ESG performance in meeting the changing expectations of stakeholders and enhancing the performance of the Group. The Board has taken the overall responsibility for the Company's ESG strategy and reporting. It is committed to environmental protection and endeavors to promote an environmental culture among all employees to enhance the sustainability of the Company.

With a view to improving its ESG disclosures, the Company has taken the initiative to formulate policies, measure relevant data, monitor progress and report to investors and other stakeholders on its achievement, in accordance with the Environmental, Social and Governance Reporting Guide (Appendix 27 to the Main Board Listing Rules) of the Stock Exchange and other related rules.

The Group values the business and ESG concerns of its key stakeholders — employees, investors, customers, suppliers, government bodies and communities. It communicates with them through different channels such as conferences, electronic platforms and public events. In formulating operational strategies and ESG measures, the Group takes into account of the stakeholders' expectations and endeavors to improve its performance through collaborating with the stakeholders, thereby creating greater value for the community.

Subject Area A — Environmental Aspects

Aspect A1: Emissions

The Group has been persistent in conducting business in an environmentally responsible manner. Its mission is to reduce the possible environmental impact from its operations, address climate change and mitigate risks for the society in the most effective way.

The Group's operations mainly rely on internet technology and related equipment and do not involve any manufacturing processes. Hence, the Group does not generate significant emissions, water pollutants and hazardous waste during its operations, except for some non-hazardous waste. While the Company does not directly produce greenhouse gases ("**GHG**") during its operations, it indirectly emits GHG.

The Company is committed to actively minimizing its impact on the environment, especially the atmosphere. To reduce GHG emissions, the Group has implemented various energy-saving measures in the office and workplace as described under "Aspect A2: Use of Resources", as well as waste reduction measures as described under "Aspect A3: Environment and natural resources".

A detailed summary of the air and GHG emissions is shown below:

Emissions of air pollutants

Types of air emissions	Major emission sources	Approximate total volume emitted (in kg)
Nitrogen oxides (NO_X)		13.71
Sulphur oxides (SO_X)	Motor vehicles	0.39
Particulate Matter (PM)		1.01

Note: The amounts of air pollutants are estimated by fuel consumption and equipment conditions with reference to the Stock Exchange Reporting Guidance on Environmental KPIs methodology.

Greenhouse gases (GHG)

Scope 1 — Direct emissions from operations that are owned or controlled by the Company, such as the use of motor vehicle.

In the Reporting Period, 540.68 tonnes of GHG were emitted by the Group, with a monthly average discharge of 45.06 tonnes. Such emissions were resulted from the Company's use of vehicles for operational purposes.

Scope 2 — Indirect energy emissions from purchased or acquired electricity consumed by the Group;

In 2017, 230.05 tonnes of GHG were emitted by the Group's consumption of electricity, with a monthly average discharge 19.17 tonnes. The Company's electricity consumption remained steady throughout the Reporting Period.

Scope 3 — Other indirect emissions that occur outside the Group, including both upstream and downstream emissions, such as paper waste disposed at landfills, electricity used for processing fresh water and sewage by government departments and business air travel by employees.

In 2017, 413.02 tonnes of GHG were emitted by the Group, with a monthly average discharge of 34.42 tonnes. 250.60 tonnes of GHG emissions were mainly generated by the Company's disposal of office paper waste, which constitutes 61% of its emissions. Business air travel accounted for the remaining 39%.

GHG emissions	Major sources	Total GHG emissions (Tonnes)	Total GHG emissions (%)
Scope 1			
Direct emissions	• Motor vehicles	540.68	45.68%
Scope 2			
Energy indirect emissions	• Purchased electricity	230.05	19.43%
Scope 3			
Other indirect emissions	• Disposal of paper waste • Business air travels	413.02	34.89%
Total GHG emissions		1,183.75	100%

Aspect A2: Use of resources

As detailed under "Aspect A1: Emissions", electricity consumption was a major source of indirect GHG emission during the Reporting Period. Cogobuy has always put great emphasis on energy and resource conservation, which is shown by its engagement in energy savings and implementation of workplace strategies to reduce energy and water consumption. For instance, the Group maintains a comfortable ambient room temperature at the workplace to reduce energy emissions and encourage energy conservation, has water-efficient sensor taps installed, and uses telephone/video conferencing to reduce avoidable GHG emissions.

Energy consumption and water consumption

Consumption type	Amount
Electricity (kWh)	265,151
Water (tonnes)	3,863

Electricity consumption

In 2017, the Group consumed a total of 265,151 kWh, with a monthly average usage of 22,091 kWh. The Group's consumption during August to October was slightly higher due to more frequent use of air conditioning in view of the hotter weather.

Water consumption

In the Reporting Period, 3,863 tonnes of water were consumed by the Company, with a monthly usage of 322 tonnes. Water consumption refers to the water consumed by the Company, mainly in the pantry and washroom.

Aspect A3: Environment and natural resources

The Group does not require a high consumption of natural resources for its operations, therefore it is less likely to have a substantial impact on the environment.

In the Reporting Period, the Group complied with the relevant environmental laws and regulations of the PRC, including the Environmental Protection Law, the Water Pollution Prevention and Control Law, the Law on Prevention and Control of Air Pollution and the Environmental Protection Law of Solid Waste Pollution.

The Group has adopted effective measures to reduce waste. For instance, the Company has established and enforced electronic waste disposal procedures. The employees of the Group are made aware of the importance of reducing the use of natural resources and minimizing the environmental impact from operations. The Company regularly monitors the consumption volumes and encourages staff to sort and recycle waste products wherever possible.

Subject Area B — Social Aspects

Employment and labor practices

Aspect B1: Employment

Cogobuy values its employees and ensures that they are reasonably remunerated. Employment policies in the Staff Handbook were reviewed and updated by the Company in 2017.

The Company endeavors to ensure employees are recruited, remunerated and promoted based on their merit, qualifications, competence, suitability and contribution to the Group. The Group is an equal opportunity employer which is committed to maintaining a diverse workforce without regard to age, gender, family status, sexual orientation, disability, ethnicity, religion and political beliefs. Any form of discrimination is prohibited in the workplace.

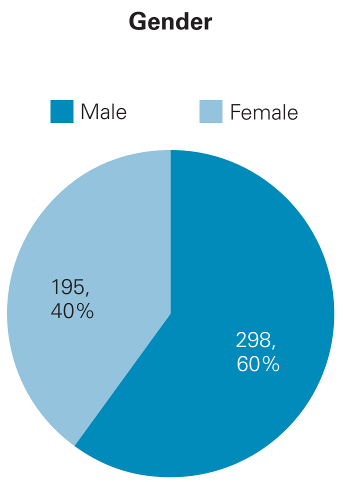
In 2017, the Group fully complied with relevant laws and regulations of the PRC — including the Company Law, the Labor Law, the Labor Contract Law and the Regulations on Labor Inspection and Security — as well as relevant laws and regulations of jurisdictions in which the Group employed staff. During the Reporting Period, there was no breach of legislation.

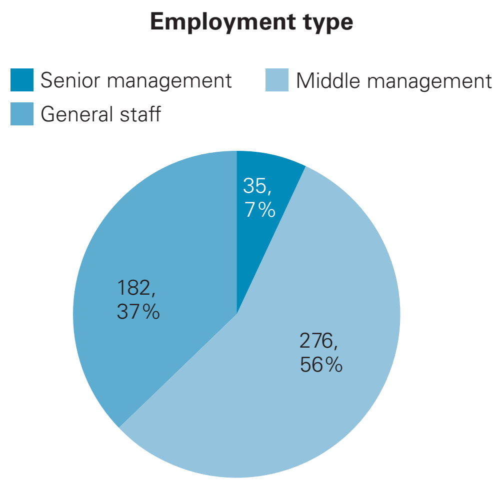
In general, employees work 40 hours per week, 8 hours a day from Monday to Friday. They are entitled to overtime compensation and paid leave in accordance with relevant labor laws and regulations. Social and commercial insurance covers are provided to employees for daily medical treatment, industrial injury, accidents, unemployment and pension.

The Group encourages employees at all levels to conduct themselves in an ethical manner with integrity, impartiality and honesty.

The Group has implemented an annual self-appraisal programme to provide incentives as a motivation for employees to attain periodic goals. Employees who are able to reach specific goals are rewarded with restricted share units (RSU) under the Company's RSU scheme and promotions. The Group provides internal transfer opportunities for those who have demonstrated their competency for the next level.

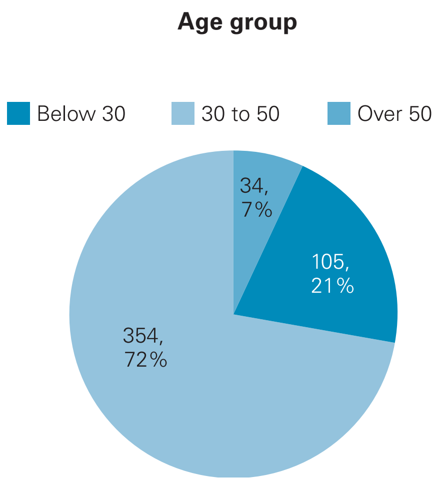
As at the end of 2017, the Group had 493 employees in total. The vast majority of 473 employees, representing 96% of the total workforce, worked full-time, while the remaining 20 employees, representing 4% of the total workforce, were part-time workers as consultants overseas. The ratio of male employees is slightly higher than female. 276 employees (56%), representing a majority of the workforce, worked in middle management level, while 182 employees (37%) worked as general staff. The remaining 35 employees (7%) of the workforce were senior managers.

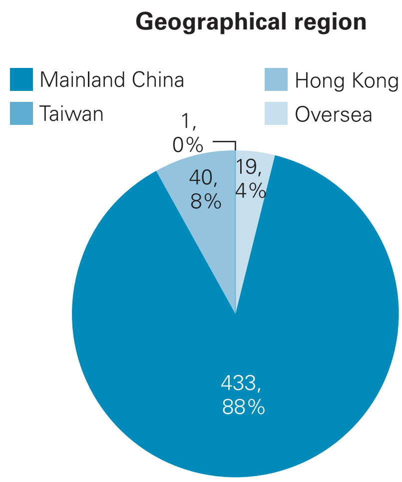




During the Reporting Period, most of the employees (72%) were aged between 30 and 50, while 21% of the workforce was under the age of 30, and the remaining 7% were aged 51 or above.

Since the Group is headquartered in China, 433 employees (88%), representing the vast majority of its workforce, worked at the offices in China during the Reporting Period. The Group employed 40 employees (8%) to manage business operations in Hong Kong as at 31 December 2017. 19 employees (4%) were hired by the Group to work overseas and only one employee was hired in Taiwan as at 31 December 2017.



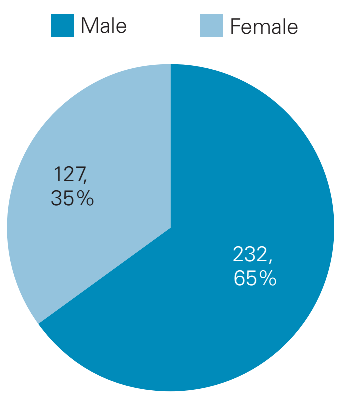


During the Reporting Period, a total of 359 employees left the Group, the majority of which was caused by the sale of a business unit to a third party.

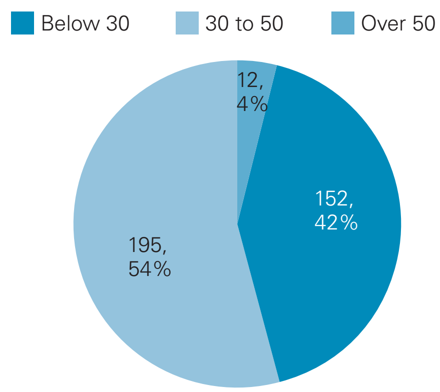
65% of the total turnover was male employees versus 35% female employees, which was in-line with the male versus female ratio of the workforce. Of all the employees who left the Group during the Reporting Period, 54% were aged between 30 to 50, while 42% were employees below the age of 30, and the remaining 4% were employees over 50.

Of all the employees who left the Group during the Reporting Period, the vast majority of employees (332) had been hired in China. An insignificant number of employee turnover was recorded from Hong Kong and other countries where the Group operated.

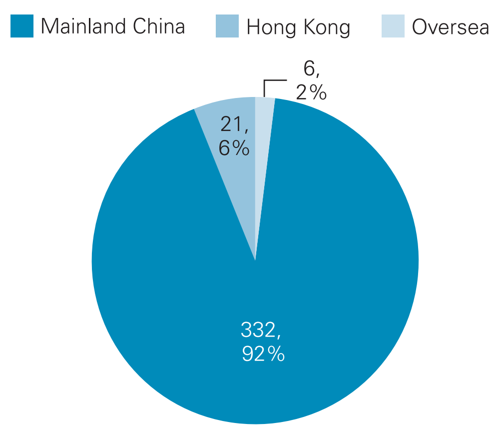
Employee turnover by gender



Employee turnover by age group



Employee turnover by geographical region



Aspect B2: Health and safety

Cogobuy has managed to provide a legitimate, safe and comfortable working environment for its employees. The Company aims to provide and maintain a safe and healthy workplace for its employees, and complies with laws and regulations including the Occupational Safety and Health Ordinance (Chapter 509) in Hong Kong, and the PRC's Labor Law and the Law on the Protection of Labor Rights and Interests, as well as well as other relevant laws and regulations of jurisdictions in which the Group employs staff.

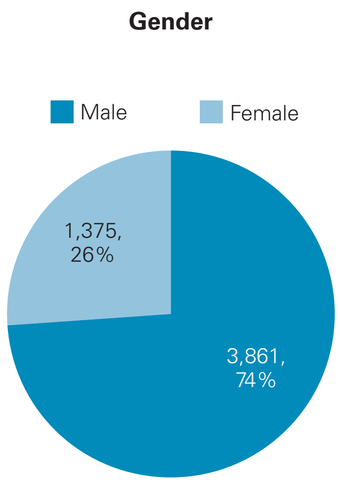
The Company has included guidance on health and safety principles in the Group's Staff Handbook. For instance, unnecessary electrical equipment should be shut down after working hours to reduce the risk of hazards and injury. Additionally, any injury occurring during work is required to be reported to the Human Resources Department. There was no significant work-related injury and no fatality recorded in 2017.

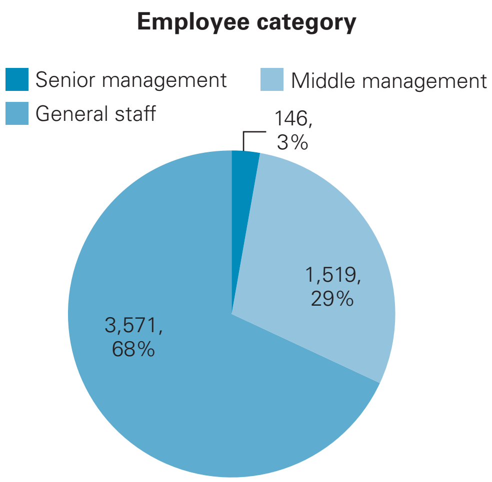
Aspect B3: Development and training

Cogobuy recognizes the importance of the continuity and development of professional knowledge and skills, and has established policies in relation to staff development and training.

The Group provides internal and external training opportunities for various levels of employees, including the management, sales and marketing, operations and back office supporting staff. Selected training sessions such as domestic and overseas inspection tours, mid-career study and job-related seminars are conducted by professional training organizations, colleges or consulting companies.

The Groups provides three career development paths for employees, including management (such as Operation Director or Client Service Manager); marketing (Project Manager, Sales Manager, and Sales Engineer, etc.) and professionals (Software Development Engineer, Accounting, and Client Service, etc.)





Employees	Training sessions attended#	Number of employee*	Training hours#	Average training hours
By Gender				
Male	3,861	298	6,013	20.2
Female	1,375	195	1,893	9.7
Total	5,236	493	7,906	16.0
By Employee Category				
Senior Management	146	35	194	5.5
Middle Management	1,519	276	2,435	8.8
General Executives	3,571	182	5,277	29.0
Total	5,236	493	7,906	16.0

* As at year end

\# During the Report Period

All employees have equal opportunity to attend trainings organised by the Group, including general staff, the middle and senior management.

During the Reporting Period, the Group recorded a total training headcounts of 5,236 and a total of 7,906 training hours. On average, each employee of the Group received approximately 10.6 training sessions and approximately 16 training hours during the Reporting Period. Overall, training offered the most headcounts on the general staff level. Among the staff who attended training during the Reporting Period, 68% were general staff, 29% were middle management and 3% were senior management.

Aspect B4: Labour standards

During the Reporting Period, the Group complied with all applicable Hong Kong labor laws and regulations, including the Employment Ordinance (Cap. 57); the Sex Discrimination Ordinance (Cap. 480); the Disability Discrimination Ordinance (Cap. 487); the Family Status Discrimination Ordinance (Cap. 527); the Race Discrimination Ordinance (Cap. 602); the Minimum Wage Ordinance (Cap. 608); and the Employment of Children Regulations (Cap. 57B) under the Employment Ordinance (Cap. 57). The Group also complied with the Convention on the Abolition of Forced Labor with respect to Employment of Workers, the Labor Law of the PRC on the Employment of Adolescents under the Age of 16 and their Legal Rights and Interests, and Provisions on the Prohibition of Child Labor in the PRC, as well as other relevant laws and regulations of jurisdictions in which the Group employed staff.

Child and forced labor are considered unacceptable at Cogobuy. Prevention was achieved by adopting a comprehensive screening and recruiting process.

Standard working hours are adopted by the Group with overtime paid. All employees are entitled to different kinds of leaves, such as annual leave, sick leave, marriage leave, maternity leave, paternity leave, compassionate leave, etc.

Operating Practices

Aspect B5: Supply chain management

Cogobuy has maintained good practices to build up positive relationships with its suppliers.

The Group has established and implemented a supplier management policy to ensure standardization across the list of approved suppliers. With a view to strengthening its list of suppliers, the Group welcomes qualified, competent and high-quality and socially responsible suppliers to join as approved suppliers. Such suppliers' performance will be evaluated at regular intervals.

The Group has utilized its own INGDAN.com platform and has followed the trend of IoT industry. It has developed an open, collaborative and prosperous e-commerce ecosystem to benefit the business operation of its customer and suppliers and it has developed tools to establish trust ratings for suppliers, thereby facilitating the process of selecting potential trading partners.

During the Reporting Period, there were 1,705 approved suppliers authorized to provide goods and/or services to the Group. The vast majority of these 1,211 suppliers were from China, while a small number of them were based in Hong Kong or overseas, which comprises 16% and 13% of the total, respectively.

Most of the suppliers with whom the Group is currently cooperating are world-leading product/service providers whose practices are in alignment with their social responsibilities and long-term sustainability of the environment. They are committed to business ethics while maintaining high standards in the conservation of environmental resources and the well-being of their employees.

Aspect B6: Product responsibility

The Group merely provides an e-commerce platform for the sale of IC and other electronic components. As such, the product responsibility lies with the Group's approved suppliers.

All approved suppliers are required to honour the exchange of sub-standard products with customers. Suppliers are required to affix labels on all packages to clearly state that the products have complied with applicable worldwide environmental regulations and requirement standards such as RoHS, PB (Plumburn/Lead) free, and/or H/F (Halogen free) standards, etc.

The Group has established standard procedures for handling complaints. The customer service team takes immediate action on receipt of any complaint, and follows up until the issue is resolved.

In order to ensure compliance with national regulations, the Group regularly checks the content of its broadcasts and on-demand system for program production activities. The Group is committed to providing positive messages for the community. Content such as violence, pornography, hatred, superstition, gambling, etc. is strictly forbidden.

The Group complies with major relevant laws and regulations of the PRC including the Administrative Measures on Internet Publishing Services issued by the State Administration of Press, Publication, Radio, Film and Television and the Ministry of Industry and Information Technology; the Measures for the Administration of Internet Information Services, promulgated by the State Council; and the Interim Provisions on Internet Culture Management promulgated by the Ministry of Culture, as well as relevant laws and regulations on customer data protection and privacy.

During the Reporting Period, the Group received no significant complaints from its customers.

Aspect B7: Anti-corruption

Cogobuy adheres to the highest ethical standards and maintains a corporate culture of integrity and justice to prevent, detect and report all types of fraud, including corruption. Employees at all levels are expected to conduct themselves in an appropriate manner, with integrity, impartiality and honesty.

The Group has established various anti-corruption policies including a whistle-blowing policy which allows employees to discreetly report any misconduct or dishonest activities, such as suspected corruption, fraud and other forms of crime, to the Company's audit committee or the company secretary by email.

All entertainment, sales and marketing related travel expenses are subject to specific expense approval procedures. The responsibility lies with the management to determine and approve each expense request in a diligent manner. The Group's disclosure policy requires its employees to report gifts, entertainment and travel acceptance while conducting business on behalf of the Group. Employees are required to manage such gifts and entertainment provided by business associates according to relevant guidelines. The staff handbook stipulates that the Group has the right to terminate the employment of those employees who have received money, gifts or rebates as bribes, and that the Group reserves the right to take further legal action.

The Group complies with major relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance" and the Criminal Law of the PRC.

During the Reporting Period, the Company was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

Community

Aspect B8: Community investment

As a responsible company, Cogobuy actively strives to become a positive force in the communities where it operates and maintains close communication and interaction with the community to contribute to community development.

The Group encourages employees to participate voluntarily in various local community activities and events such as the charity event of Food Angel (惜食堂) to prepare 6,000 lunch boxes for the elderly and low-income community.

From time to time, the Company organizes used computers donations to selected schools to help disadvantaged children in remote areas in China. The Company has established an internal charity fund. During the Reporting Period, the fund acted as a financial aid to support those employees and their immediate families in need.

The Company will consider from time to time making donations to charities when the Group records after-tax profits and has sufficient funds.

信永中和 ShineWing

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

TO THE SHAREHOLDERS OF COGOBUY GROUP
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Cogobuy Group (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 69 to 155, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 21 March 2017.

Key audit matters

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

Impairment assessment on loans to third parties and loan interest receivables

Refer to notes 24 and 25 to the consolidated financial statements and the accounting policies on pages 95 to 96.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the Group's loans receivables and loan interest receivables, amounting to approximately RMB942,558,000 and RMB21,073,000, represented loans granted to customers under the supply chain financing services, namely Ingfin Financing Services ("IngFin Financing Services") and about 57% of the balances were secured by the cash deposits as at 31 December 2017. We identified the impairment assessment on loans to third parties and loan interest receivables as a key audit matter due to the significance of amounts to the consolidated financial statements and the subjective nature of the impairment assessment for the estimates on which these impairment are based entail a significant degree of management judgment and may be subject to management bias.	Our procedures were designed to review the management's impairment assessment and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts. We have discussed the indicators of possible impairment with the management and, where such indicators were identified, assessing the management's impairment testing. We have challenged the assumptions and critical judgment used by the management by assessing the reliability of the management's past estimates and taking into account the aging at year end and settlement received after year end, as well as the recent creditworthiness of each debtor and the appropriateness of valuation of the collateral provided by the borrowers as assessed by the management.

Impairment assessment on trade receivables

Refer to note 24 to the consolidated financial statements and the accounting policies on pages 95 to 96.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the Group's trade receivables are amounting to approximately RMB1,478,522,000 net of allowance for doubtful debts of approximately RMB111,883,000. In addition, there were outstanding trade receivables of approximately RMB145,435,000 which were past due but no impairment was provided. We identified the impairment assessment on trade receivables as a key audit matter due to the significance of amounts to the consolidated financial statements and significant degree of management judgment was involved in assessing the ultimate realisation of these receivables, based on the current creditworthiness and the past collection history of each customer.	Our audit procedures were designed to review the management's assessment of the indicators of impairment and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts. We have assessed the indicators of possible impairment and, where such indicators were identified by the management, assessed the management's impairment testing. We have also challenged the assumptions and critical judgement used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end and cash received after year end as well as the recent creditworthiness of each debtor.

Valuation of inventories

Refer to note 23 to the consolidated financial statements and the accounting policies on page 93.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the carrying amount of inventories is approximately RMB504,403,000, net of allowance for inventories of approximately RMB57,567,000. We identified the valuation of inventories as a key audit matter due to the use of judgements in identifying obsolete and slow moving inventories and determining the net realisable value ("NRV") which are based on conditions and the marketability of the inventories.	Our audit procedures were designed to evaluate the management's assessment of the conditions and the marketability of the obsolete and slow moving inventories and identify any valuation risk of inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluating the condition and marketability of the inventories adopted by the management. We have performed testing on the aging analysis of the inventories, on a sample basis, to the source documents. We have tested the subsequent sales, on a sample basis, to source documents. We have also assessed the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sample basis.

Impairment assessment on goodwill

Refer to note 19 to the consolidated financial statements and the accounting policies on page 93.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the Group had goodwill amounting to approximately RMB170,857,000 allocated to a cash-generating unit. The management performed impairment testing on the goodwill annually which based on the value-in-use calculation of the cash-generating unit. We have identified the impairment assessment on goodwill as a key audit matter because of the involvement of a significant degree of judgements and estimates made by the management when performing impairment testing.	Our procedures were designed to review the management's assessment, including the reasonableness of the judgements and estimates used by the management in the value-in-use calculation. We have assessed the impairment testing performed by the management. We tested the profit forecasts and cash flow projections on whether they were agreed to the budgets approved by the directors of the Company and compared with actual results available up to the report date. We also challenged the appropriateness of the management judgements and estimates used in the profit forecasts and cash flow projections, including the forecasted sales and gross profit margins, against latest available information. We also challenged the discount rate adopted in the value-in-use calculation by reviewing its basis of calculation and comparing the input data to market sources.

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

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

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

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

Responsibilities of Directors of the Company and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kwan Chi Fung.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614

Hong Kong
27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Expressed in Renminbi unless otherwise indicated)

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Revenue	7	**9,613,696**	12,932,794
Cost of sales		**(8,843,461)**	(11,870,302)
Gross profit		**770,235**	1,062,492
Other income	9	**74,342**	65,473
Selling and distribution expenses		**(138,174)**	(218,053)
Research and development expenses		**(118,269)**	(62,613)
Administrative and other operating expenses		**(154,500)**	(198,044)
Finance costs	10	**(109,131)**	(55,984)
Gain on disposal of subsidiaries	41	**26,493**	–
Share of result of an associate		**2,872**	2,014
Share of result of a joint venture		**(956)**	–
Profit before taxation		**352,912**	595,285
Income tax expenses	11	**(51,609)**	(85,678)
Profit for the year	12	**301,303**	509,607
Profit for the year attributable to:			
Owners of the Company		**302,025**	478,799
Non-controlling interests		**(722)**	30,808
		301,303	509,607
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**(144,195)**	134,757
Fair value gain on available-for-sale investments		**–**	4,904
Reclassification adjustments for the cumulative gain included in profit or loss upon a disposal of available-for-sale investments		**(4,904)**	–
Other comprehensive (expense) income for the year		**(149,099)**	139,661
Total comprehensive income for the year		**152,204**	649,268

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the year ended 31 December 2017
(Expressed in Renminbi unless otherwise indicated)

	Note	2017 RMB'000	2016 RMB'000
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**154,666**	616,660
Non-controlling interests		**(2,462)**	32,608
		152,204	649,268
Earnings per share	16		
Basic (RMB)		**0.207**	0.347
Diluted (RMB)		**0.206**	0.345

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017
(Expressed in Renminbi unless otherwise indicated)

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	17	**11,819**	14,189
Intangible assets	18	**1,128**	51,286
Goodwill	19	**170,857**	201,659
Available-for-sale investments	20	**20,918**	107,426
Interest in an associate	21	**18,318**	15,446
Interest in a joint venture	22	**44**	1,000
Other non-current assets		**–**	2,247
		223,084	393,253
Current assets			
Inventories	23	**504,403**	1,394,835
Trade, bills and other receivables	24	**1,635,818**	2,095,591
Loans to third parties	25	**942,558**	794,596
Available-for-sale investments	20	**–**	471,212
Short-term bank deposits	26	**1,943**	12,649
Pledged bank deposits	26	**184,770**	1,652,434
Cash and cash equivalents	26	**2,048,431**	1,825,543
		5,317,923	8,246,860
Current liabilities			
Trade and other payables	27	**213,014**	1,027,076
Deposits from customers	28	**589,178**	–
Income tax payables		**14,916**	81,776
Amount due to a related party	29	**–**	38,985
Bank loans	30	**1,084,085**	3,797,382
		1,901,193	4,945,219
Net current assets		**3,416,730**	3,301,641
Total assets less current liabilities		**3,639,814**	3,694,894
Non-current liability			
Deferred tax liabilities	31	**570**	8,959
Net assets		**3,639,244**	3,685,935

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2017
(Expressed in Renminbi unless otherwise indicated)

	Note	2017 RMB'000	2016 RMB'000
Capital and reserves			
Share capital	32	**1**	1
Reserves		**3,609,868**	3,600,493
		3,609,869	3,600,494
Non-controlling interests		**29,375**	85,441
Total equity		**3,639,244**	3,685,935

The consolidated financial statements on page 69 to 155 were approved and authorised for issue by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Kang Jingwei, Jeffrey
Director

Wu Lun Cheung, Allen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Expressed in Renminbi unless otherwise indicated)

	Attributable to owners of the Company												
	Share capital RMB'000 (note 32)	Share premium RMB'000	Capital Reserve RMB'000 (note i)	Share-based compensation reserve RMB'000 (note ii)	Other reserve RMB'000 (note iii)	Shares held for the Restricted Share Unit Scheme ("RSU Scheme") RMB'000 (note iv)	Exchange reserve RMB'000	Statutory reserves RMB'000 (note v)	Fair value reserve RMB'000 (note vi)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	1	2,375,533	18,923	23,785	(26,286)	(108,721)	184,845	4,602	4,904	1,122,908	3,600,494	85,441	3,685,935
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	302,025	302,025	(722)	301,303
Other comprehensive income													
Exchange difference arising on translating foreign operations	–	–	–	–	–	–	(142,455)	–	–	–	(142,455)	(1,740)	(144,195)
Reclassification adjustments for the cumulative gain included in profit or loss upon disposal of available-for-sale investments	–	–	–	–	–	–	–	–	(4,904)	–	(4,904)	–	(4,904)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(142,455)	–	(4,904)	302,025	154,666	(2,462)	152,204
Disposal of subsidiaries (note 41)	–	–	–	–	–	–	(770)	–	–	–	(770)	(53,604)	(54,374)
Issue of shares under the RSU Scheme (note 32 (vi))	–	–	–	(37,827)	–	37,827	–	–	–	–	–	–	–
Equity-settled share-based compensation expenses (note 38)	–	–	–	44,581	–	–	–	–	–	–	44,581	–	44,581
Interim dividend paid (note 15)	–	–	–	–	–	–	–	–	–	(62,467)	(62,467)	–	(62,467)
Cancelled of own shares (note 32(iv))	–	(105,508)	–	–	–	–	–	–	–	–	(105,508)	–	(105,508)
Purchase of shares held for the RSU Scheme (note 32(v))	–	–	–	–	–	(21,127)	–	–	–	–	(21,127)	–	(21,127)
Appropriations	–	–	–	–	–	–	–	9,289	–	(9,289)	–	–	–
At 31 December 2017	1	2,270,025	18,923	30,539	(26,286)	(92,021)	41,620	13,891	–	1,353,177	3,609,869	29,375	3,639,244

	Attributable to owners of the Company												
	Share capital RMB'000 (note 32)	Share premium RMB'000	Capital Reserve RMB'000 (note i)	Share-based compensation reserve RMB'000 (note ii)	Other reserve RMB'000 (note iii)	Shares held for the Restricted Share Unit Scheme ("RSU Scheme") RMB'000 (note iv)	Exchange reserve RMB'000	Statutory reserves RMB'000 (note v)	Fair value reserve RMB'000 (note vi)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	1	999,878	18,923	24,448	186,196	(8,845)	51,888	3,317	–	645,394	1,921,200	80,351	2,001,551
Profit for the year	–	–	–	–	–	–	–	–	–	478,799	478,799	30,808	509,607
Other comprehensive expense													
Exchange difference arising on translating on foreign operations	–	–	–	–	–	–	132,957	–	–	–	132,957	1,800	134,757
Surplus on revaluation of available-for-sale investments	–	–	–	–	–	–	–	–	4,904	–	4,904	–	4,904
Total comprehensive income for the year	–	–	–	–	–	–	132,957	–	4,904	478,799	616,660	32,608	649,268
Issue of new shares (note 32(i))	–	1,719,913	–	–	–	–	–	–	–	–	1,719,913	–	1,719,913
Equity-settled share-based compensation expenses (note 38)	–	–	–	36,753	–	–	–	–	–	–	36,753	–	36,753
Issue of shares under the RSU Scheme (note 32(vi))	–	37,416	–	(37,416)	–	–	–	–	–	–	–	–	–
Cancelled of own shares (note 32(ii))	–	(381,674)	–	–	–	–	–	–	–	–	(381,674)	–	(381,674)
Purchase of shares held for the RSU Scheme (note 32(iii))	–	–	–	–	–	(99,876)	–	–	–	–	(99,876)	–	(99,876)
Purchase of non-controlling interests	–	–	–	–	(212,482)	–	–	–	–	–	(212,482)	(27,518)	(240,000)
Appropriations	–	–	–	–	–	–	–	1,285	–	(1,285)	–	–	–
At 31 December 2016	1	2,375,533	18,923	23,785	(26,286)	(108,721)	184,845	4,602	4,904	1,122,908	3,600,494	85,441	3,685,935

Notes:

(i) Capital reserve

It represents an amount of US$3,000,000 (equivalent to approximately RMB18,923,000) contributed by the shareholder in the form of cash during 2012.

(ii) Share-based compensation reserve

It represents the portion of the grant date fair value of RSUs granted to the directors and employees of the Company and its subsidiaries that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3.

(iii) Other reserve

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

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

(iv) Shares held for the RSU Scheme

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

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

(v) Statutory reserve

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

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

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

(vi) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 3.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Expressed in Renminbi unless otherwise indicated)

	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**352,912**	595,285
Adjustments for:		
Depreciation of property, plant and equipment	**2,484**	2,186
Amortisation of intangible assets	**10,762**	13,335
Finance costs	**109,131**	55,984
Bank interest income	**(29,727)**	(21,664)
Impairment loss on trade receivables	**21,679**	32,040
Impairment loss of available-for-sale investments	**–**	37,144
Allowance for inventories	**–**	48,736
Dividend income on available-for-sale securities	**(2,096)**	(2,181)
Share of result of an associate	**(2,872)**	(2,014)
Share of result of a joint venture	**956**	–
Gain on disposal of subsidiaries	**(26,493)**	–
Gain on disposal of available-for-sale investments	**(37,036)**	(39,509)
Gain on disposal of property, plant and equipment	**(2,027)**	–
Equity-settled share based compensation expenses	**44,581**	36,753
Operating cash flows before movements in working capital	**442,254**	756,095
Decrease (increase) in inventories	**769,946**	(765,450)
Decrease (increase) in trade, bills and other receivables	**101,920**	(674,920)
Increase in loans to third parties	**(197,975)**	(522,992)
(Decrease) increase in trade and other payables	**(554,815)**	262,631
Increase in deposits from customers	**589,178**	–
(Decrease) increase in bank loans used for Ingfin Financing Services	**(258,788)**	421,413
Cash generated from (used in) operations	**891,720**	(523,223)
Income tax paid	**(105,320)**	(46,302)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**786,400**	(569,525)

	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(152,170)**	(324,877)
Purchases of available-for-sale investments	**(97,096)**	(747,370)
Purchase of property, plant and equipment	**(781)**	(11,202)
Proceeds on disposal of property, plant and equipment	**2,266**	–
Withdrawal of short-term bank deposits	**10,706**	–
Interest received	**31,376**	20,015
Dividend received	**2,096**	2,182
Proceeds on disposal of a subsidiary (Note 42)	**43,858**	–
Proceeds on disposal of available-for-sale investments	**671,036**	296,777
Withdrawal of pledged bank deposits	**1,525,483**	–
Acquisition of interest in a joint venture	**–**	(1,000)
Acquisition of subsidiaries (Note 39)	**–**	(2,865)
Acquisition of interest in an associate	**–**	(12,592)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**2,036,774**	(780,933)
FINANCING ACTIVITIES		
Repayment of bank loans	**(3,293,219)**	–
Interest and factoring costs paid	**(109,131)**	(55,984)
Repurchase of issued ordinary shares	**(105,508)**	(381,674)
Interim dividends paid	**(62,467)**	–
Repayment to a related party	**(20,864)**	–
Purchase of shares held for RSU Scheme	**(21,127)**	(99,876)
New bank loans raised	**1,077,721**	1,098,213
Acquisition of additional interests in a subsidiary	**–**	(240,000)
Proceeds from issue of new shares	**–**	1,719,913
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(2,534,595)**	2,040,592
NET INCREASE IN CASH AND CASH EQUIVALENTS	**288,579**	690,134
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,825,543**	1,024,269
Effect of foreign exchange rate changes	**(65,691)**	111,140
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**2,048,431**	1,825,543

1. General Information

Cogobuy Group (the "Company") is a limited company incorporated on 1 February 2012 in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited ("SEHK") on 18 July 2014.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the address of the principal place of business of the Company has changed to 11th Floor, Microsoft Comtech Tower, No. 55 Gaoxin South 9th Road, High-Tech Industrial Park, Nanshan, Shenzhen, Guangdong Province, the PRC.

The immediate holding company and the ultimate holding company of the Group are also Envision Global Investments Limited which was incorporated in the British Virgin Islands (the "BVI").

The Group was principally engaged in the sales of integrated circuits ("IC") and other electronic components and the provision of supply chain financing services.

The functional currency of the Company and its subsidiaries (collectively referred to as the "Group") incorporated in Hong Kong is United States dollar ("US$") while the functional currency of the subsidiaries established in the PRC are Renminbi ("RMB"). The consolidated financial statements are presented in Renminbi ("RMB") for the convenience of users of the consolidated financial statements as the central management of the Group was located in the People's Republic of China (the "PRC").

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("Int(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

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

(Expressed in Renminbi unless otherwise indicated)

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Amendments to HKAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The application of amendments to HKAS 7 has resulted in additional disclosures on the Group's financing activities, especially a reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities is provided in note 40. On initial application of the amendments, the Group is not required to provide comparative information for preceding periods. Apart from the additional disclosure in note 40, the directors of the Company considered that these amendments have had no impact on the Group's consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

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

1 Effective for annual period beginning on or after 1 January 2018.
2 Effective for annual period beginning on or after 1 January 2019.
3 Effective for annual period beginning on or after 1 January 2021.
4 Effective date not yet been determined.

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKFRS 9 (2014) to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments (Continued)

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company has performed a preliminary analysis of the Group's financial instruments as at 31 December 2017 based on the fact and circumstances existing at that date. The directors of the Company have assessed the impact of adoption of HKFRS 9 (2014) on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures, as follows:

a) Classification and measurement

The directors of the Company expect to continue recognising initially at fair value for all financial assets which are subsequently measured at amortised costs.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either fair value through profit or loss ("FVTPL") or irrevocably elect to designate as fair value through other comprehensive income ("FVTOCI") (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's accounting policies. This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 (2014) are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9 (2014).

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments (Continued)

b) Impairment

The directors of the Company expect to apply the simplified approach and record lifetime expected credit losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade, bills and other receivables and loans to third parties. The application of the expected credit loss model may result in earlier recognition of credit losses for trade, bills and other receivables and loans to third parties and increase the amount of impairment allowance recognised for these items.

The directors of the Company will perform a more detailed analysis which considers all reasonable and supportable information for the estimation of the effect of adoption of HKFRS 9 (2014). Based on the preliminary assessment, the directors of the Company expect that the adoption of HKFRS 9 (2014) will not have other material impact on amounts reported in the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue recognised. The five steps are as follows:

i) Identify the contract with the customer;

ii) Identify the performance obligations in the contract;

iii) Determine the transaction price;

iv) Allocate the transaction price to the performance obligations; and

v) Recognise revenue when (or as) the entity satisfies a performance obligation

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The major sources of revenue of the Group are sales of goods and commission income from marketplace, and provision of financing services. Under HKFRS 15, revenue is recognised for each of the performance obligations when control over a good or service is transferred to a customer. The directors of the Company have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18 Revenue. Furthermore, HKFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition, and results in more disclosures in the consolidated financial statements. However, the directors of the Company expect that the adoption of HKFRS 15 will not have a material impact on the timing and amounts of revenue recognised based on the existing business model of the Group as at 31 December 2017.

HKFRS 16 Leases

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

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

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

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

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

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related Interpretations when it becomes effective.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 16 Leases (Continued)

HKFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately RMB9,601,000 as disclosed in Note 33. The operating leases with original lease terms of over one year in which the Group will recognise right-of-use assets and corresponding lease liabilities unless they are exempt from the reporting obligations under HKFRS 16. The directors of the Company expect that, apart from the changes in the measurement, presentation and disclosure as indicated above, the adoption of HKFRS 16 will not have other material impact on amounts in the Group's consolidated financial statements.

3. Significant Accounting Policies

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

The consolidated financial statements have been prepared on historical cost basis, except for available-for-sale investments that are measured at fair values.

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). Control is achieved where the Company:

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

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group.

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

3. Significant Accounting Policies (Continued)

Business combinations (Continued)

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

Investments in an associate and a joint venture

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and a joint venture are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in an associate and a joint venture are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates and joint venture are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture, the Group discontinued recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or join venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate or joint venture is recognised as goodwill and is included in the carrying amount of the investment.

After application of the equity method, including recognising the associate's or the joint venture's losses, the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate and joint venture. Goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate or joint venture. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

3. Significant Accounting Policies (Continued)

Investments in an associate and a joint venture (Continued)

Gains and losses resulting from transactions between the Group and its associate or joint venture are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate or joint venture. The Group's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

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

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

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

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

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

Commission income on sales of IC components is recognised when the underlying IC components are delivered and titles have passed.

Leasing

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

The Group as lessee

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

3. Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

Government grants

Government grants are recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

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

Retirement benefits cost

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

3. Significant Accounting Policies (Continued)

Short-term and other long-term employee benefits

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

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises 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 an associate and a joint venture, 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.

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

Current and deferred tax are recognised in profit or loss.

3. Significant Accounting Policies (Continued)

Property, plant and equipment

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

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

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

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses less subsequent accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). 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.

Research and development expenditure

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

3. Significant Accounting Policies (Continued)

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Impairment losses on tangible and intangible assets

(Other than impairment of goodwill set out in accounting policy of goodwill above)

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the 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 the CGU) in prior years. A reversal of an impairment was recognised immediately in profit or loss.

Financial instruments

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

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of fair value reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets 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 financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

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

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

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

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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.

Impairment losses on available-for-sale investments will not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in fair value reserve.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Other financial liabilities

Other financial liabilities including trade and other payables, deposits from customers, amount due to a related party, and bank loans are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

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

3. Significant Accounting Policies (Continued)

Fair value measurement

When measuring fair value except for the Group's net realisable value of inventories and value in use of property, plant and equipment for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

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

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

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

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

Equity-settled share-based payment transactions

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

3. Significant Accounting Policies (Continued)

Equity-settled share-based payment transactions (Continued)

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

4. Key Sources of Estimation Uncertainty

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

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

Key sources of estimation uncertainty

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units ("CGUs") to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill was approximately RMB170,857,000 (2016: RMB201,659,000). No impairment loss in respect of goodwill has been recognised in profit or loss for the years ended 31 December 2017 and 2016 (Details of the recoverable amount calculation are disclosed in note 19).

4. Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for property, plant and equipment at the end of each reporting period. Property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

As at 31 December 2017, the carrying amount of property, plant and equipment was approximately RMB11,819,000 (2016: RMB14,189,000). Based on the estimated recoverable amounts, no impairment loss in respect of property, plant and equipment has been recognised in profit or loss for the years ended 31 December 2017 and 2016.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful life, using the straight line method. The estimated useful life reflects the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. As at 31 December 2017, the carrying amounts of property, plant and equipment are approximately RMB11,819,000 (2016: RMB14,189,000).

Allowance for inventories

Management reviews the condition of the inventories of the Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group carries out an inventory review at the end of each reporting period and makes allowance for obsolete and slow-moving items. As at 31 December 2017, the carrying amounts of inventories were approximately RMB504,403,000 (2016: RMB1,394,835,000) (net of allowance for inventories of approximately RMB57,567,000 (2016: RMB57,567,000)).

Impairment of trade and other receivables, loans to third parties and loan interest receivables

The Group makes impairments loss based on an assessment of the recoverability of trade and other receivables, loans to third parties and loan interest receivables. Allowance is made to trade and other receivables, loans to third parties and loan interest receivables where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. In determining whether impairment loss on receivables is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of counterparties of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

4. Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of trade and other receivables, loans to third parties and loan interest receivables (Continued)

As at 31 December 2017, the carrying amounts of trade receivables were approximately RMB1,478,522,020 (2016: RMB1,989,731,000) (net of allowance for doubtful debts of approximately RMB111,883,000 (2016: RMB90,204,000)).

As at 31 December 2017, the carrying amounts of other receivables were approximately RMB136,497,000 (2016: RMB69,073,000). No impairment loss in respect of other receivables has been recognised for the assets (or the cash generating unit) for the years ended 31 December 2017 and 2016.

As at 31 December 2017, the carrying amounts of loans to third parties and loan interest receivables were approximately RMB942,558,000 and RMB21,073,000 (2016: RMB794,596,000 and RMB3,665,000 respectively). No impairment loss in respect of loans to third parties and loan interest receivables has been recognised in profit or loss for the years ended 31 December 2017 and 2016.

Impairment of available-for-sale investments

The policy for impairment loss in respect of available-for-sale investments of the Group is based on any objective evidence of the existence of any impairment on the investments as detailed in note 3. The amount of impairment loss is measured at the difference between the carrying amount of the available-for-sale investments and their fair value.

As at 31 December 2017, the carrying amounts of available-for-sale investments were approximately RMB20,918,000 (2016: RMB578,638,000) (net of accumulated impairment loss of nil (2016: RMB37,144,000)).

5. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the pricing of products and services that commensurate with the level of risk and by securing access to financing at a reasonable cost.

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

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt as total interest-bearing loans less cash and cash equivalents, short-term bank deposits and pledged bank deposits. The Group defines "capital" as all components of equity. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank loans disclosed in note 30, net of pledged bank deposits, short-term bank deposits and cash and cash equivalents disclosed in note 26 and equity attributable to owners of the Company, comprising issued share capital and reserves.

6. Financial Instruments

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**4,722,934**	6,324,372
Available-for-sale investments	**20,918**	578,638
	4,743,852	6,903,010
Financial liabilities		
Financial liabilities stated at amortised cost	**1,882,686**	4,862,443

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and bills receivables, other receivables, available-for-sale investments, loans to third parties, short-term bank deposits, pledged bank deposits, cash and cash equivalents, trade and other payables, deposits from customers, amount due to a related party and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (currency 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 management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The majority of pledged bank deposits, and cash and cash equivalents of the Group are denominated in foreign currencies, i.e. a currency other than the functional currency of the operations to which the transactions relate, which expose the Group to currency risk. The Group did not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2017, the Group had an aggregate amount of RMB36,031,000 (2016: RMB43,978,000) which represented pledged bank deposits and cash and cash equivalent that denominated in non-functional currency in respect of the Group entities. Since the impact of net exposure to the currency risk is insignificant, no sensitive analysis is presented.

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans to third parties (see note 25), fixed-rate short-term bank deposits (see note 26) and fixed-rate pledged bank deposits (see note 26).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate loans to third parties (see note 25) and variable-rate bank loans (see note 30). It is the Group's policy to keep its loans at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's US$ denominated bank loans.

Sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2016: 50 basis points) 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 (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's: post-tax profit for the year ended 31 December 2017 would decrease/increase by approximately RMB3,651,000 (2016: decrease/increase by approximately RMB15,854,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank loans.

(iii) Other price risk

As at 31 December 2016 group is exposed to equity price risks through its investments in listed equity securities, which was classified as available-for-sale investments (see note 20). The Group's equity price risk is mainly concentrated on equity instruments operating in insurance, electronic consumer and asset management industry sectors quoted on the SEHK. The management manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 5% higher/lower, fair value reserve would increase/decrease by approximately RMB4,277,000 (2017: nil) for the Group as a result of the changes in fair value of available-for-sale investments.

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debts regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2017, 41% (2016: 12%) and 60% (2016: 24%) of the total trade receivables was due from the Group's largest external customer and the top five largest external customers respectively.

In respect of loan interest receivables and loans to third parties, management has established policies and systems for the monitoring and control of credit risk. The Group manages and analyses the credit risk for each of their new and existing clients before payment terms and conditions are offered. The Group assesses the credit quality of the third parties under supply chain financing services, taking into account its financial position, past experience, collaterals and other factors. Impairment allowance on loan interest receivables and loans to third parties are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis. The assessment normally encompasses the anticipated receipts for the individual balance.

As at 31 December 2017, 36% (2016: 92%) and 82% (2016: 94%) of the loan interest receivables and loans to third parties were due from the Group's largest Ingfin Financial Services customer and top five largest Ingfin Financial Services customers respectively.

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

The Group's concentration of credit risk by geographical location is in the PRC (including Hong Kong), which accounted for 100% all of the total trade receivables, loans to third parties and loan interest receivables as at 31 December 2017 and 2016.

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

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

The following 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.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity dates for other non-derivative financial liabilities are prepared based on the agreed repayment dates.

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

	At 31 December 2017		
	Within 1 year or on demand RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	209,423	209,423	209,423
Deposits from customers	589,178	589,178	589,178
Bank loans	1,084,085	1,084,085	1,084,085
	1,882,686	1,882,686	1,882,686

	At 31 December 2016		
	Within 1 year or on demand RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	1,026,076	1,026,076	1,026,076
Bank loans	3,797,382	3,797,382	3,797,382
Amount due to a related party	38,985	38,985	38,985
	4,862,443	4,862,443	4,862,443

6. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

As at 31 December 2017, bank loans with a repayment on demand clause are included in the "within 1 year or on demand" time band in the above maturity analysis. The aggregate undiscounted principal amounts of these bank loans amounted to approximately RMB1,084,085,000 (2016: RMB3,797,382,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash flows will amount to approximately RMB1,122,976,000 (2016: RMB3,809,603,000).

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.

Fair value measurement recognised in the consolidated statement of financial position

As at 31 December 2016, some of the Group's financial assets are measured at fair value (2017: nil). The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	At 31 December 2016			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments:				
— Listed equity securities	85,535	–	–	85,535
— Unlisted equity funds	–	471,212	–	471,212
	85,535	471,212	–	556,747

6. Financial Instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The following table gives information about how the fair values of these financial assets are determined.

Financial instruments	Fair value hierarchy	Fair value as at 2017 RMB'000	Fair value as at 2016 RMB'000	Valuation technique and key inputs
Listed equity securities	Level 1	–	85,535	Quoted bid prices in an active market
Unlisted equity funds	Level 2	–	471,212	Discounted cash flows based on the rates currently available for instrument with similar terms

There were no transfers between levels of fair value hierarchy in current year and prior years.

The directors of the Company consider that the carrying amounts of other current financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values due to short-term maturities.

7. Revenue

Revenue represents the sales of goods delivered to customers, commission fees charged to third-party merchants for using the e-commerce marketplaces ("marketplace income") and interest income generated from the Ingfin Financing Services. An analysis of the Group's revenue for the year is as follows:

	2017 RMB'000	2016 RMB'000
Sales of IC and other electronic components	9,364,467	12,829,115
Marketplace income	75,553	84,714
Ingfin Financing Services income	173,676	18,965
	9,613,696	12,932,794

8. Segment Information

Information reported to the directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services provided. Sales of IC and other electronic components and Marketplace income, identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

In a manner consistent with the way in which information is reported internally to the Group's operating decision make for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments:

— Sales of IC and other electronic components and marketplace operation; and

— Financing Services

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2017

	Sales of IC and other electronic components and marketplace operation RMB'000	Financing services RMB'000	Total RMB'000
Segment revenue	9,440,020	173,676	9,613,696
Segment profit	464,055	49,737	513,792
Gain on disposal of property, plant and equipment			2,027
Unallocated income			72,315
Unallocated corporate expenses			(154,500)
Unallocated finance costs			(109,131)
Gain on disposal of subsidiaries			26,493
Share of result of an associate			2,872
Share of result of a joint venture			(956)
Profit before tax			352,912

8. Segment Information (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2016

	Sales of IC and other electronic components and marketplace operation RMB'000	Financing services RMB'000	Total RMB'000
Segment revenue	12,913,829	18,965	12,932,794
Segment profit	778,339	3,487	781,826
Unallocated income			65,473
Unallocated corporate expenses			(198,044)
Unallocated finance costs			(55,984)
Share of result of an associate			2,014
Profit before tax			595,285

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, impairment loss on available-for-sale investments, certain other income, finance costs, share of result of an associate and share of result of a joint venture. This is the measure reported to the chief operating decision maker for the purpose resource allocation and performance assessment.

8. Segment Information (Continued)

Segment assets and liabilities

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

Segment assets

	2017 RMB'000	2016 RMB'000
Sales of IC and other electronic components and marketplace operation	**2,108,072**	3,493,632
Financing services	**963,631**	798,261
Total segment assets	**3,071,703**	4,291,893
Interest in an associate	**18,318**	15,446
Interest in a joint venture	**44**	1,000
Corporate and other assets	**2,450,942**	4,331,774
Total assets	**5,541,007**	8,640,113

Segment liabilities

	2017 RMB'000	2016 RMB'000
Sales of IC and other electronic components and marketplace operation	**193,712**	968,407
Financing services	**589,178**	–
Total segment liabilities	**782,890**	968,407
Corporate and other liabilities	**1,118,873**	3,985,771
Total liabilities	**1,901,763**	4,954,178

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

— All assets are allocated to operating segment, other than intangible assets, goodwill, interest in an associate and a joint venture, available-for-sale investments, certain other receivables, short-term bank deposits, pledged bank deposits, cash and cash equivalent and other corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

— All liabilities are allocated to operating segments, other than certain other payables and accruals, unallocated amount due to a related party, income tax payables, bank loans, deferred tax liabilities and other corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

8. Segment Information (Continued)

Other segment information

For the year ended 31 December 2017

	Sales of IC and other electronic components and marketplace operation RMB'000	Financing services RMB'000	Unallocated RMB'000	Total RMB'000
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets (Note)	781	–	–	781
Depreciation and amortisation	2,484	–	10,762	13,246
Impairment loss on trade receivables	21,679	–	–	21,679
Gain on disposal of property, plant and equipment	(2,027)	–	–	(2,027)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Gain on disposal of available-for-sale investments	–	–	(37,036)	(37,036)
Gain on disposal of subsidiaries	–	–	(26,493)	(26,493)
Bank interest income	–	–	(29,727)	(29,727)
Interest expense	–	–	109,131	109,131
Interest in an associate	–	–	18,318	18,318
Interest in a joint venture	–	–	44	44
Share of result of an associate	–	–	(2,872)	(2,872)
Share of result of a joint venture	–	–	956	956
Income tax expense	–	–	51,609	51,609

8. Segment Information (Continued)

Other segment information (Continued)

For the year ended 31 December 2016

	Sales of IC and other electronic components and marketplace operation RMB'000	Financing services RMB'000	Unallocated RMB'000	Total RMB'000
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets (Note)	16,756	–	–	16,756
Depreciation and amortisation	2,186	–	13,335	15,521
Allowance for inventories	48,736	–	–	48,736
Impairment loss on trade receivables	32,040	–	–	32,040
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Impairment loss on available-for-sale investments	–	–	37,144	37,144
Gain on disposal of available-for-sale investments	–	–	(39,509)	(39,509)
Bank interest income	–	–	(21,664)	(21,664)
Interest expense	–	–	55,984	55,984
Interest in an associate	–	–	15,446	15,446
Interest in a joint venture	–	–	1,000	1,000
Share of result of an associate	–	–	(2,014)	(2,014)
Income tax expenses	–	–	85,678	85,678

Note: Non-current assets excluded financial instruments.

Geographical information

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

8. Segment Information (Continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2017 RMB'000	2016 RMB'000
Customer A[1]	**1,694,817**	N/A[2]

1 Revenue from sales of IC and other electronic component and marketplace operation.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

9. Other Income

	2017 RMB'000	2016 RMB'000
Bank interest income	**29,727**	21,664
Gain on disposal of available-for-sale investments	**37,036**	39,509
Gain on disposal of property, plant and equipment	**2,027**	–
Dividend income on available-for-sale investments	**2,096**	2,181
Government grants (note)	**1,265**	2,119
Commission income	**2,191**	–
	74,342	65,473

Note: Included in the amount of government grant recognised during the year ended 31 December 2017, approximately of RMB1,265,000 (2016: RMB2,119,000) was received from the PRC local government authorities in respect of subsidising the Group's research and development activities, which were immediately recognised as other income for the year as the Group fulfilled all the relevant granting criteria.

10. Finance Costs

	2017 RMB'000	2016 RMB'000
Interest on bank loans	**69,853**	45,332
Factoring costs	**39,278**	10,652
	109,131	55,984

11. Income Tax Expenses

	2017 RMB'000	2016 RMB'000
Current tax:		
PRC Enterprises Income Tax ("EIT")	**26,804**	39,329
Hong Kong Profits Tax	**25,739**	48,561
Other jurisdictions	**842**	–
	53,385	87,890
(Over-) under-provision in prior years:		
PRC EIT	**–**	(456)
Hong Kong Profits Tax	**–**	444
	–	(12)
Deferred taxation (note 31)	**(1,776)**	(2,200)
	51,609	85,678

Notes:

a) 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.

b) During the years ended 31 December 2017 and 2016, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

c) Under Singapore Income Tax Act, Singapore Corporate Income Tax is calculated at 17% of the estimated assessable profit for both years.

d) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

e) Cogobuy.com E-commerce Services (Shenzhen) Limited* ("Cogobuy E-commerce") 庫購網電子商務(深圳)有限公司, Shenzhen Cogobuy Information Technologies Limited* ("Shenzhen Cogobuy") 深圳市可購百信息技術有限公司 and FOXSAAS Information Technology (Shenzhen) Limited* ("FOXSAAS Shenzhen") 赤狐信息技術(深圳)有限公司, being qualified software enterprises, are each granted a tax holiday of two-year tax exemption followed by three-year 50% tax reduction (subject to annual review) starting from the first profit making year from the PRC tax perspective under the then effective tax regulations ("two-year exemption and three-year reduction") during 2013. As a result, they are exempted from CIT for 2013 and 2014, and are subject to CIT at 12.5% from 2015 to 2017.

* *For identification purpose only*

11. Income Tax Expenses (Continued)

Notes: (Continued)

f) Qianhai Cogobuy.com (Shenzhen) Limited* ("Qianhai Cogobuy") 前海科通芯城通信技術(深圳)有限公司 and INGDAN.com (Shenzhen) Limited* ("INGDAN Shenzhen") 硬蛋科技(深圳)有限公司, being qualified software enterprises, are each granted two-year exemption and three-year reduction under the then effective tax regulations during 2015. As a result, they are exempted from CIT for 2015 and 2016, and are subject to CIT at 12.5% from 2017 to 2019.

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

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

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

* For identification purpose only

The income tax expenses can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 RMB'000	2016 RMB'000
Profit before taxation	**352,912**	595,285
Tax at the domestic income tax rate of 25% (2016: 25%)	**88,228**	148,821
Tax effect of two-year exemption and three-year reduction	**(69,584)**	(85,534)
Tax effect of entities of jurisdictions not subject to income tax	**7,423**	18,030
Tax effect of share of result of an associate	**(718)**	(504)
Tax effect of share of result of a joint venture	**239**	–
Tax effect of income not taxable for tax purposes	**(6,892)**	(1,037)
Tax effect of expenses not deductible for tax purposes	**29,702**	13,179
Tax effect of tax losses not recognised	**10,735**	10,733
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(7,403)**	(17,778)
Over-provision in prior years	**–**	(12)
Hong Kong Profits Tax exemption granted (note)	**(121)**	(220)
Income tax expenses	**51,609**	85,678

Note: Hong Kong Profits Tax exemption granted represented a reduction of Hong Kong Profits Tax for both years of assessment 2016/2017 and 2015/2016 by 75%, subject to a ceiling of HK$20,000 (equivalent to approximately RMB17,000) for each entity.

Details of the deferred taxation are set out in note 31.

12. Profit for the Year

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and chief executive's emoluments (note 13)	**3,370**	4,101
Salaries, wages, allowance and other benefits	**113,719**	131,967
Retirement benefit scheme contributions	**22,622**	14,706
Equity-settled share-based compensation expenses (note 38) (excluding directors' and chief executive emoluments)	**44,581**	36,009
Total staff costs	**184,292**	186,783
Amortisation of intangible assets	**10,762**	13,335
Depreciation of property, plant and equipment	**2,484**	2,186
Auditors' remuneration	**4,993**	6,163
Impairment loss on available-for-sale investment	**–**	37,144
Impairment loss on trade receivables	**21,679**	32,040
Allowance for inventories (included in cost of sales)	**–**	48,736
Net foreign exchange, net	**1,208**	(1,151)
Operating lease charges in respect of rented premises	**15,480**	17,098
Research and development expenses	**118,269**	62,613
Amount of inventories recognised as an expense	**8,730,675**	11,821,566

Note:

Research and development expenses include staff costs of employees in the design, research and development function of approximately RMB47,777,000 (2015: RMB53,423,000) for the year ended 31 December 2017, such amount is also included in the staff costs as disclosed as above.

Research and development expenses also include operating lease charges in respect of rented premises of approximately RMB4,907,000 (2016: RMB3,593,000), and amortisation and depreciation charge of approximately RMB935,000 (2016: RMB585,000) for the year ended 31 December 2017, such amounts are also included in the amortisation of intangible assets, depreciation of property, plant and equipment and operating lease charges in respect of rented premises as disclosed above.

13. Directors' and Chief Executive's Emoluments

Details of directors' and chief executive's emoluments are as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertakings:	**Directors' fee RMB'000**	**Salaries and allowance RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Sub-total RMB'000**	**Share-based compensation expenses RMB'000**	**Total RMB'000**
Year ended 31 December 2017						
Executive directors						
Mr. Kang Jingwei ("Mr. Kang")	–	1,167	25	1,192	–	1,192
Mr. Wu Lun Cheung Allen	–	1,000	16	1,016	–	1,016
Ms. Ni Hong, Hope	260	–	13	273	–	273
Non-executive directors						
Mr. Guo Jiang (note i)	108	–	–	108	–	108
Mr. Kim Jin Ha Jason (note ii)	–	–	–	–	–	–
Independent non-executive directors						
Mr. Ye Xin	260	–	–	260	–	260
Dr. Ma Qiyuan (note v)	151	–	–	151	–	151
Mr. Hao Chunyi, Charlie (note vi)	–	–	–	–	–	–
Mr. Zhong Xiaolin, Forrest (note iii)	260	–	–	260	–	260
Mr. Yan Andrew Y (note iv)	110	–	–	110	–	110
	1,149	2,167	54	3,370	–	3,370

13. Directors' and Chief Executive's Emoluments (Continued)

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertakings:	Directors' fee RMB'000	Salaries and allowance RMB'000	Retirement benefit scheme contributions RMB'000	Sub-total RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Year ended 31 December 2016						
Executive directors						
Mr. Kang	–	1,019	24	1,043	372	1,415
Mr. Wu Lun Cheung Allen	–	1,019	15	1,034	372	1,406
Ms. Ni Hong, Hope	256	–	–	256	–	256
Non-executive director						
Mr. Guo Jiang	256	–	–	256	–	256
Independent non-executive directors						
Mr. Zhong Xiaolin, Forrest	256	–	–	256	–	256
Mr. Ye Xin	256	–	–	256	–	256
Mr. Yan Andrew Y	256	–	–	256	–	256
	1,280	2,038	39	3,357	744	4,101

Notes:

(i) Resigned on 1 September 2017

(ii) Appointed on 2 June 2017 and resigned on 13 February 2018

(iii) Resigned on 13 February 2018

(iv) Resigned on 2 June 2017

(v) Appointed on 2 June 2017

(vii) Appointed on 13 February 2018

13. Directors' and Chief Executive's Emoluments (Continued)

Mr. Kang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors of the Company waived or agreed to waive the emolument paid by the Group during the years ended 31 December 2017 and 2016. No emoluments were paid by the Group to the Chief Executive and directors of the Company as an inducement for joining the Group or as compensation for loss of office during the years ended 31 December 2017 and 2016.

14. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2016: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures in note 13 in the above. The emoluments of the remaining three (2016: three) highest paid individuals were as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowance and other benefits	**3,051**	2,851
Share-based compensation expenses	**2,011**	1,812
Retirement benefits scheme contributions	**186**	168
	5,248	4,831

Their emoluments were within the following bands:

	2017 Number of individuals	2016 Number of individuals
HK$1,500,001 (equivalent to approximately RMB1,249,000 (2016: RMB1,343,000)) to HK$2,000,000 (equivalent to approximately RMB1,665,000 (2016: RMB1,791,000)	**3**	3

No emoluments were paid by the Group to the five highest paid individuals as an inducement for joining the Group or as compensation for loss of office during the years ended 31 December 2017 and 2016.

15. Dividend

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year 2017 Interim — HK$0.05 (2016 Interim — nil) per share	**62,467**	–

No final dividend was proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).

16. Earnings Per Share

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

	2017 RMB'000	2016 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share, representing profit for the year attributable to owners of the Company	**302,025**	478,799

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,456,679**	1,379,543
Effect of dilutive potential ordinary shares:		
Deemed issue of shares under the Company's RSU scheme for nil consideration (note 38)	**6,945**	9,555
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	**1,463,624**	1,389,098

17. Property, Plant and Equipment

	Motor vehicles RMB'000	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Total RMB'000
COST				
At 1 January 2016	585	2,235	4,797	7,617
Additions	738	4,881	5,583	11,202
Disposals	(442)	–	(568)	(1,010)
Exchange adjustments	34	29	69	132
At 31 December 2016 and 1 January 2017	915	7,145	9,881	17,941
Additions	–	–	781	781
Disposals	–	–	(1,920)	(1,920)
Disposal of a subsidiary (note 41)	–	–	(44)	(44)
Exchange adjustments	(98)	(87)	(316)	(501)
At 31 December 2017	817	7,058	8,382	16,257
DEPRECIATION AND IMPAIRMENT				
At 1 January 2016	312	769	883	1,964
Charge for the year	159	796	1,231	2,186
Written back on disposals	(297)	–	(154)	(451)
Exchange adjustments	6	29	18	53
At 31 December 2016 and 1 January 2017	180	1,594	1,978	3,752
Charge for the year	169	800	1,515	2,484
Written back on disposals	–	–	(1,681)	(1,681)
Disposal of a subsidiary (note 41)	–	–	(2)	(2)
Exchange adjustments	(29)	(36)	(50)	(115)
At 31 December 2017	320	2,358	1,760	4,438
CARRYING VALUES				
At 31 December 2017	497	4,700	6,622	11,819
At 31 December 2016	735	5,551	7,903	14,189

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

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

18. Intangible Assets

	Internet platform RMB'000	Customer relationships RMB'000	Domain name and trademark RMB'000	Supplier relationships RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST						
At 1 January 2016	2,765	37,386	2,060	45,507	5,216	92,934
Exchange adjustments	200	2,515	148	–	–	2,863
At 31 December 2016	2,965	39,901	2,208	45,507	5,216	95,797
Disposal of a subsidiary (Note 41)	–	(2,535)	–	(45,507)	(5,216)	(53,258)
Exchange adjustments	(187)	(2,511)	15	–	–	(2,683)
At 31 December 2017	2,778	34,855	2,223	–	–	39,856
ACCUMULATED AMORTISATION						
At 1 January 2016	2,688	20,556	546	5,056	580	29,426
Charge for the year	79	7,428	192	5,056	580	13,335
Exchange adjustments	198	1,504	48	–	–	1,750
At 31 December 2016	2,965	29,488	786	10,112	1,160	44,511
Charge for the year	–	7,091	196	3,132	354	10,762
Disposal of a subsidiary (Note 41)	–	(691)	–	(13,235)	(1,512)	(15,438)
Exchange adjustments	(187)	(1,033)	113	–	–	(1,107)
At 31 December 2017	2,778	34,855	1,095	–	–	38,728
CARRYING VALUES						
At 31 December 2017	–	–	1,128	–	–	1,128
At 31 December 2016	–	10,413	1,422	35,395	4,056	51,286

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

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

19. Goodwill

	RMB'000
COST	
At 1 January 2016	184,260
Additions through business combination (note 39)	5,554
Exchange adjustments	11,845
At 31 December 2016	201,659
Elimination on disposal of a subsidiary (note 41)	(19,326)
Exchange adjustments	(11,476)
At 31 December 2017	170,857
ACCUMULATED IMPAIRMENT LOSSES	
At 1 January 2016, 31 December 2016 and 31 December 2017	–
CARRYING VALUES	
At 31 December 2017	170,857
At 31 December 2016	201,659

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

The recoverable amount of the CGU is determined based on value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated weighted average growth rate of 2.1% for the CGU (2016: 3%).

The estimated weighted average growth rates are consistent with the forecast included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 17.5% (2016: 17.5%). Key assumptions used for the value in use calculations are the revenue, gross margins and growth rates. Management determined the budgeted revenue, gross margins and growth rates based on past performance and its expectation for market development.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as of 31 December 2017 and 2016. The Group performs annual impairment test on goodwill at the end of the reporting period. Accordingly, no impairment loss for goodwill has been recognised in the consolidated statement of comprehensive income (2016: nil).

20. Available-For-Sale Investments

Available-for-sale investments comprise:

	2017 RMB'000	2016 RMB'000
Listed investments:		
— Equity securities listed in Hong Kong (note a)	–	85,535
Unlisted investments:		
— Equity securities (note b)	20,918	21,891
— Funds (note c)	–	471,212
Total	20,918	578,638
Analysed for reporting purposes as :		
Non-current assets	20,918	107,426
Current assets	–	471,212
	20,918	578,638

Notes:

(a) Gain on disposal of listed equity securities of approximately RMB37,036,000 (2016: RMB39,509,000) has been recognised in profit or loss for the current year.

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

(c) The investment in unlisted funds is managed by a third party investment entity incorporated in the PRC and are measured at fair values. The annualised return rate of the fund investment of 2016 was 8% (2017: nil). The principle and the return are guaranteed by the fund manager with its net asset. During the current year, the Group redeemed such funds at the original subscription price. No gain or loss on disposal on the unlisted funds has been recognised in profit or loss for the current year (2016: nil).

21. Interest in an Associate

	2017 RMB'000	2016 RMB'000
Cost of investment in an associate — unlisted	**13,432**	13,432
Share of post acquisition profit and other comprehensive income	**4,886**	2,014
	18,318	15,446

At 31 December 2017 and 2016, the Group had interest in the following associate:

Name of entities	Form of business	Principal place of operation and incorporation	Class of shares and number of shares held	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held by the Group		Principal activities
				2017	2016	**2017**	2016	
Zim Hong Kong Limited ("ZIM HK")	Incorporated	Hong Kong	2,973,529 ordinary shares	**15% (note)**	15% (note)	**15% (note)**	15% (note)	Trading of IC and other electronic components

Note: The Group is able to exercise significant influence over Zim HK because it has the power to appoint one out of the three directors under the provisions stated in the Articles of Association.

The summarised financial information in respect of the associate that is material to the Group and is accounted for using equity method is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

Zim HK Limited

	2017 RMB'000	2016 RMB'000
Current assets	**482,282**	457,151
Non-current assets	**383**	398
Current liabilities	**(396,598)**	(390,629)
Revenue	**1,713,930**	1,996,730
Profit for the year	**19,147**	13,427
Profit and total comprehensive income for the year	**19,147**	13,427

21. Interest in an Associate (Continued)

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in the associate is set out below:

	2017 RMB'000	2016 RMB'000
Net assets of the associate	**86,067**	66,920
Proportion of the Group's ownership interest in Zim HK	**15%**	15%
Group's share of net assets of the associate	**12,910**	10,038
Goodwill	**5,408**	5,408
Carrying amount of the Group's interest in Zim HK	**18,318**	15,446

22. Interest in a Joint Venture

	2017 RMB'000	2016 RMB'000
Cost of investment in a joint venture — unlisted	**1,000**	1,000
Share of post acquisition profit and other comprehensive income	**(956)**	–
	44	1,000

At 31 December 2017 and 2016, the Group had interest in the following joint venture:

Name of entities	Form of business	Principal place of operation and establishment	Class of shares held	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held by the Group		Principal activities
				2017	2016	**2017**	2016	
蜘蛛家智能家居(上海)有限公司 ("蜘蛛家上海")	Incorporated	The PRC	Contributed capital	**50%**	50%	**50%**	50%	Information Technology integration services

The registered capital of 蜘蛛家上海 was RMB1,000,000 upon its establishment.

23. Inventories

	2017 RMB'000	2016 RMB'000
Finished goods	**504,403**	1,394,835

24. Trade, Bills and Other Receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	**1,590,405**	2,079,935
Bills receivables	**22,742**	38,436
Trade and bills receivables	**1,613,147**	2,118,371
Less: allowance for doubtful debts	**(111,883)**	(90,204)
	1,501,264	2,028,167
Loan interest receivables	**21,073**	3,665
Trade deposits and prepayments	**90,586**	56,441
Other receivables	**22,895**	7,318
	1,635,818	2,095,591

The Group does not hold any collateral over these balances.

During the reporting period, the Group was subject to several factoring agreements with banks under which the banks pay an amount net of discount to the Group and collect the factored trade receivable balances directly from the Group's customers. The costs of the factoring arrangement ranged from 2.1% to 3.3% (2016: 2.1% to 3.3%) of the balance transferred and are included in "finance costs". The Group considered it had transferred the contractual rights to receive the cash flows of the trade receivables being factored and therefore recorded the transfers of trade receivables pursuant to the factoring agreements as sales. All of the factored trade receivables were accounted for as sales of trade receivables and derecognised upon transfer.

For the year ended 31 December 2017, the Group received proceeds of approximately RMB1,979,257,000 (2016: RMB3,279,046,000) from sales of trade receivables. The Group recognised discounts of RMB39,278,000 (2016: RMB10,652,000) in finance costs for trade receivables sold to the banks for the year ended 31 December 2017.

24. Trade, Bills and Other Receivables (Continued)

The Group allows credit period ranging from 30 days to 90 days from the date of billing. The following is an aged analysis of trade receivables, net of allowance for impairment of trade receivables, presented based on the invoice date which approximates revenue recognition date at the end of each reporting period.

	2017 RMB'000	2016 RMB'000
Within 1 month	**1,306,185**	1,272,570
1 to 2 months	**148,432**	466,007
2 to 3 months	**18,830**	206,970
Over 3 months	**27,817**	82,620
	1,501,264	2,028,167

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

	2017 RMB'000	2016 RMB'000
At the beginning of the year	**90,204**	58,164
Impairment loss recognised	**21,679**	32,040
At the end of the year	**111,883**	90,204

The aged analysis of trade receivable that were past due but not impaired are as follows:

	2017 RMB'000	2016 RMB'000
Past due but not impaired:		
Less than 1 month past due	**145,435**	333,059
1 to 3 months past due	**–**	10,840
4 to 6 months past due	**–**	153
Over 6 months past due	**–**	2
	145,435	344,054

Included in the Group's trade receivable balances as at 31 December 2017 were debtors with aggregate carrying amount of approximately RMB145,435,000 (2016: RMB344,054,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and there is no recent history of default, therefore the amounts are considered recoverable.

25. Loans to Third Parties

	RMB'000
At 1 January 2016	276,754
Additions (note i)	681,527
Repayments from borrowers (note ii)	(158,535)
Exchange adjustments	(5,150)
At 31 December 2016	794,596
Additions (note i)	2,991,237
Repayments from borrowers (note ii)	(2,793,262)
Exchange adjustments (note)	(50,013)
At 31 December 2017	942,558

Notes:

(i) Included in the amount of additions during the year ended 31 December 2017, approximately of US$331,300,000 (equivalent to approximately RMB2,155,434,000) (2016: US$70,345,000 (equivalent to approximately RMB488,409,000)) represented the principal amount of loans made to Blueberry Capital Limited ("Blueberry Capital").

During the year ended 31 December 2017, the maximum outstanding amount of loans to Blueberry Capital is approximately US$288,566,000 (equivalent to approximately RMB1,877,408,000) (2016: US$70,345,000 (equivalent to approximately RMB488,409,000)). Further details are set out in the announcement of the Company dated 22 January 2018.

(ii) Included in the amount of repayments from borrowers during the year ended 31 December 2017, approximately of US$401,645,000 (equivalent to approximately RMB2,613,102,000) (2016: nil) represented the repayment of loans repaid from Blueberry Capital.

	2017 RMB'000	2016 RMB'000
Unsecured loans	**398,220**	64,612
Secured loans	**544,338**	729,984
	942,558	794,596

The secured loans are secured by the third-party borrowers' cash deposits, inventories, receivables or listed equity securities.

A maturity profile of the loans to third parties at the end of each reporting periods, based on the maturity date , is as follow:

	2017 RMB'000	2016 RMB'000
Within 1 month	**222,181**	–
1 to 2 months	**157,148**	150,618
2 to 3 months	**425,156**	64,691
Over 3 months	**138,073**	579,287
	942,558	794,596

25. Loans to Third Parties (Continued)

The ageing analysis of loans to third parties based on the loans draw down date at the end of the reporting periods is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 month	**336,186**	482,532
1 to 2 months	**13,839**	310,939
2 to 3 months	**283,361**	—
Over 3 months	**309,172**	1,125
	942,558	794,596

The ageing analysis of loans to third parties based on the due date at the end of the reporting periods is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**630,478**	793,473
Within 1 month	**541**	76
1 to 2 months	**696**	750
2 to 3 months	**729**	—
Over 3 months	**310,114**	297
	942,558	794,596

Included in the Group's loans to third parties balances as at 31 December 2017 were debtors with aggregate carrying amount of approximately RMB312,080,000 (2016: RMB1,123,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and there is no recent history of default, therefore the amounts are considered recoverable.

As at 31 December 2017, none of the loans to third parties were individually determined to be impaired (2016: nil).

Loans to third parties carried effective interest at fixed rates ranging from 6% to 13% per annum (2016: 6% to 12% per annum) and floating rates ranging from 7% to 8% per annum (2016: nil).

26. Short-Term Bank Deposits, Pledged Bank Deposits and Cash and Cash Equivalents

Short-term bank deposits

Short-term bank deposits earned interest at a market fixed rate of 3% per annum during the year ended 31 December 2016 (2017: nil).

Pledged bank deposits

Pledged bank deposits represented deposits pledged to the bank to secure banking facilities granted to the Group. As at 31 December 2017, all bank deposits (2016: all) have been pledged by the Group to secure short-term bank loans (note 30) and was therefore classified as current assets. The pledged bank deposits carried interest at a fixed interest rate of 2.1% per annum during the year ended 31 December 2017 (2016: 2.2%).

Bank balances and cash

Bank balances carried interest at floating rates based on daily bank deposit rates which range from 0.2% to 1.2% per annum (2016: 0.3% to 1.1% per annum).

27. Trade and Other Payables

	2017 RMB'000	2016 RMB'000
Trade payables	190,121	967,407
Accrued staff costs	13,140	23,566
Receipt in advance	3,591	1,000
Other payables	6,162	35,103
	213,014	1,027,076

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Within 1 month	156,907	776,136
1 to 3 months	27,575	157,271
Over 3 months	5,639	34,000
	190,121	967,407

The average credit period granted is 30 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

28. Deposits from Customers

The deposits from customers represented the pledged deposits received from individual customers in relation to the Ingfin Financing Services.

29. Amount Due to a Related Party

The amount due to a related party represented the amount due to non-controlling interest.

As at 31 December 2016, amount due to a related party included an amount of approximately RMB18,589,000 which represented the outstanding purchase consideration payable for the acquisition of the business operation of World Style Technology Holding Limited ("World Style") to non-controlling interest. On 12 July 2017, the Group disposed of entire share capital of World Style together with its subsidiaries ("World Style Group"). The amount was waived upon the disposal of World Style.

As at 31 December 2016, amount due to a related party included an amount of approximately RMB20,864,000 which represented the advance from non-controlling interest to a subsidiary of the Group.

The amount was unsecured, interest-free and fully settled during 2017.

30. Bank Loans

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	2017 RMB'000	2016 RMB'000
Within one year	78,908	3,797,382
After one year but within two years	1,005,177	–
	1,084,085	3,797,382
Carrying amount of bank loans that are not repayable on demand or within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	1,005,177	–
Carrying amount repayable within one year	78,908	3,797,382
	1,084,085	3,797,382
Amount shown under current liabilities	(1,084,085)	(3,797,382)
Amount shown under non-current liabilities	–	–

30. Bank Loans (Continued)

a) At 31 December 2017, bank loans carried in HIBOR plus 1.8% to 3.6% (2016: HIBOR plus 1.4% to 2.2%) with an effective interest at floating rates ranging from 3.07% to 4.85% per annum (2016: 2.15% to 2.98% per annum).

b) At 31 December 2017, all banking facilities were secured by the Group's bank deposits of approximately RMB184,770,000 (2016: RMB1,652,434,000).

c) Banking covenants

As of 31 December 2017, the banking facilities contain various covenants, including the Group's consolidated net borrowing ratio not exceeding 30% of consolidated tangible net worth and the Group maintaining a tangible net worth of not less than RMB1,200,000,000 (2016: RMB1,000,000,000). Other conditions include Mr. Kang, the controlling shareholder of the Company, remaining as the single largest shareholder of the Company and retaining at least 40% equity interest of the Company.

As of 31 December 2017, none of the covenants relating to the banking facilities had been breached (2016: nil).

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

d) The amounts of banking facilities and the utilisation at the end of the reporting period are set out as follows:

	2017 RMB'000	2016 RMB'000
Facility amount		
— expiring within one year	**78,908**	6,304,244
— expiring beyond one year	**1,005,177**	–
Total	**1,084,085**	6,304,244
Utilisations		
— expiring within one year:		
— Bank loans	**78,908**	3,797,382
— Trade receivables factoring facilities	**–**	629,475
	78,908	4,426,857
— expiring beyond one year:		
— Bank loans	**1,005,177**	—
	1,084,085	4,426,857
Unused banking facilities	**–**	1,877,387

31. Deferred Taxation

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Amortisation of intangible assets RMB'000
At 1 January 2016	10,762
Credited to profit of loss	(2,200)
Exchange adjustments	397
At 31 December 2016	8,959
Credited to profit of loss	(1,776)
Elimination on disposal of a subsidiary (note 41)	(6,240)
Exchange adjustments	(373)
At 31 December 2017	**570**

As at 31 December 2017, no deferred tax asset has been recognised in respect of unused tax losses of approximately RMB95,141,000 (2016: RMB33,715,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB40,671,000 (2016: RMB33,612,000) that will be expired within next five years. Other losses may be carried forward indefinitely.

As at 31 December 2017, the aggregate amount of temporary differences associated with the PRC subsidiary's undistributed retained earnings for which deferred tax liabilities have not been recognised from 1 January 2008 onwards were approximately RMB1,397,820,000 (2016: RMB1,046,120,000). Deferred tax liabilities of RMB69,891,000 (2016: RMB55,408,000) have not been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not be reversed in the foreseeable future.

32. Share Capital

	Number of shares	Amount in original currency US$	Shown in the consolidated financial statements RMB'000
Ordinary shares of US$0.0000001 each			
Authorised:			
At 1 January 2016, 31 December 2016 and 31 December 2017	500,000,000,000	50,000	N/A
Issued and fully paid:			
At 1 January 2016	1,362,262,500	136	1
Issue of new shares (note i)	160,420,232	16	–
Cancellation of repurchased shares (notes ii and iii)	(21,410,000)	(2)	–
At 31 December 2016	1,501,272,732	150	1
Cancellation of repurchased shares (notes iv and v)	(29,996,000)	(3)	–
At 31 December 2017	1,471,276,732	147	1

Notes:

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

32. Share Capital (Continued)

Notes: (Continued)

(ii) During the year ended 31 December 2016, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited (the "SEHK") as follows:

Month	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate amount paid
		HK$	HK$	HK$'000
January 2016	3,075,000	8.28	7.90	24,824
February 2016	1,437,000	8.30	7.92	11.650
May 2016	5,416,000	10.96	10.50	57,639
October 2016	4,536,000	12.30	12.04	55,088
November 2016	7,632,000	12.50	11.42	91,533
December 2016	17,083,000	12.00	11.22	200,849
	39,179,000			441,583

Of the 39,179,000 shares repurchased, 21,410,000 shares were cancelled as at 31 December 2016, and the remaining 17,769,000 shares were cancelled during the year ended 31 December 2017. The issued share capital of the Company was reduced by the nominal value of US$3.92. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of US$2.14 (equivalent to RMB14.21) was transferred from the share capital to the share premium. The premium paid on the repurchase of the shares of HK$441,583,000 (equivalent to approximately RMB381,674,000) was charged to share premium.

(iii) During the year ended 31 December 2016, the Company repurchased its own shares through the SEHK as follows:

Month	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate amount paid
	US$0.0000001 each	HK$	HK$	HK$'000
November 2016	9,284,000	12.37	11.66	111,534

These repurchased shares were held by the RSU Scheme trustee for the purpose of the RSU Scheme (note 38). The consideration paid on the repurchase of the shares of HK$111,534,000 (equivalent to approximately RMB99,876,000) is presented as shares held for the RSU Scheme in the consolidated statement of changes in equity and deducted from shares held for the RSU Scheme.

(iv) During the year ended 31 December 2017, the Company repurchased its own shares through the SEHK as follows:

Month	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate amount paid
	US$0.0000001 each	HK$	HK$	HK$'000
January 2017	1,215,000	11.70	10.32	13,374
February 2017	668,000	10.78	10.30	7,008
May 2017	10,344,000	10.40	7.67	97,417
	12,227,000			117,799

32. Share Capital (Continued)

Notes: (Continued)

(iv) (Continued)

All of the above shares were cancelled as at 31 December 2017. The issued share capital of the Company was reduced by the nominal value of US$1.22. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of US$1.22 (equivalent to RMB8.28) was transferred from the share capital to the share premium. The premium paid on the repurchase of the shares of HK$117,799,000 (equivalent to approximately RMB105,508,000) was charged to share premium.

(v) During the year ended 31 December 2017, the Company repurchased its own shares through the SEHK as follows:

Month	Number of ordinary shares US$0.0000001 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate amount paid HK$'000
January 2017	1,250,000	11.05	10.73	13,631
February 2017	500,000	10.90	10.77	5,425
May 2017	500,000	9.78	9.78	4,892
	2,250,000			23,948

These repurchased shares were held by the RSU Scheme trustee for the purpose of the RSU Scheme (note 38). The consideration paid on the repurchase of the shares of HK$23,948,000 (equivalent to approximately RMB21,127,000) is presented as shares held for the RSU Scheme in the consolidated statement of changes in equity and deducted from shares held for the RSU Scheme.

(vi) For the year ended 31 December 2016, 12,720,400 units of RSUs were vested to the beneficiaries, and approximately RMB37,416,000 were credited to the share premium account.

For the year ended 31 December 2017, 6,045,000 units of RSUs were vested to the beneficiaries, and approximately RMB37,827,000 were credited to the Shares held for the RSU scheme account.

The remaining shares are held on trust by the RSU Scheme trustee until their release to the beneficiaries upon the vesting of the RSUs (see note 38).

33. Operating Lease Commitment

The Group as lessee

Operating lease payments represent rentals payable by the Group for its office premises and warehouses. Leases are negotiated for terms of one to five years (2016: one to five years) and rentals are fixed for an average of two years (2016: two years).

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

	2017 RMB'000	2016 RMB'000
Within one year	**7,374**	12,525
In the second to fifth years inclusive	**2,227**	10,106
	9,601	22,631

34. Commitments

As at 31 December 2016, the Group has RMB2,538,852,000 (2017: nil) outstanding purchase orders for IC and other electronic components from suppliers.

35. Contingent Liabilities

As at 31 December 2017 and 2016, the Company issued several guarantees to banks in respect of the banking facilities granted to subsidiaries of the Company. The maximum liability of the Company at the end of the reporting period under these guarantees issued is the outstanding amount of the bank loans drawn down by the subsidiaries (see note 30). As at 31 December 2017 and 2016, management of the Company did not consider it is probable that a claim will be made against the Company under any of the guarantees. In the opinion of the directors of the Company, the fair value of financial guarantee is insignificant.

36. Related Party Transactions

(a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related party during the year as follows:

Related party	Nature of transaction	2017 RMB'000	2016 RMB'000
Zim HK	Interest income received (note i)	13,310	1,299
Comtech Small Loan Company Limited ("Comtech Small Loan")* 深圳市科通小額貸款有限責任公司	Agency services, administrative and consultancy services fee income received (note ii)	8,935	9,057

Notes:

(i) Interest income received from Zim HK

During the year ended 31 December 2017, the Group has provided loans in aggregate of approximately US$19,922,000 (equivalent to approximately RMB 125,061,000) to an associate of the Group, at an interest rate range from 7% to 9.72% (2016: 7%) for the purpose of supply chain financing.

(ii) Agency services, administrative and consultancy services fee income received from Comtech Small Loan (included in revenue).

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

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

* For identification purpose only

36. Related Party Transactions (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(ii) Agency services, administrative and consultancy services fee income received from Comtech Small Loan (Continued)

Under the Purchase Option Agreement, the Group may transfer up to an aggregate of RMB200,000,000 to CCT within three years from 11 December 2015 as advance payment for the purchase of the equity interest in Comtech Small Loan (such sum will be deducted from the total consideration payable when the option to acquire the entire or part of the equity interest of Comtech Small Loan is exercised). The advance payment is not interest-bearing and does not constitute an exercise of the option by the Purchaser. As at 31 December 2017, no advance payment has been made (2016: nil).

Pursuant to the Agency Agreement signed with CCT, the Group would provide client referral service for a service fee amounting to 80% of the fees and interest receivables introduced by Comtech Small Loan to the referred customers. As at 31 December 2017, RMB11,131,000 borrowings (2016: RMB137,640,000) were extended to customers referred by the Group to Comtech Small Loan and service fee earned by the Group for the year ended 31 December 2017 amounted to approximately RMB8,905,000 (2016: approximately RMB8,938,000) under the Agency Agreement.

Pursuant to the Service Agreement signed with CCT, the Group would also provide administrative and consultancy services to Comtech Small Loan at the prevailing market rate of comparable services and amounting to no more than 1% of Comtech Small Loan's yearly turnover will be received by the Group. Service fee earned by the Group from provision of administrative and consultancy services to Comtech Small Loan for the year ended 31 December 2017 amounted to approximately RMB30,000 (2016:RMB119,000) under the Service Agreement.

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

(b) Compensation of key management personnel

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

	2017 **RMB'000**	2016 RMB'000
Short-term benefits	**6,601**	6,169
Post-employment benefits	**230**	207
Share-based compensation expenses	**1,812**	2,556
	8,643	8,932

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

37. Retirement Benefit Scheme

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2017, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB22,676,000 (2016: RMB14,745,000) represents contributions payable to these schemes by the Group in respect of the respective current accounting period.

38. Share-Based Payment Transactions

RSU scheme of the Company

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

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

On 1 February 2017, the Company granted an additional 6,000,000 RSUs to employees of the Company and its subsidiaries under the RSU Scheme. Shares repurchased by the Company on the Stock Exchange were held by the RSU Scheme trustee for the purpose of the RSU Scheme.

Equity-settled share-based compensation expenses of approximately RMB44,581,000 were recognised as staff costs in profit or loss for the year ended 31 December 2017 (2016: approximately RMB36,753,000) and the remaining balance is to be recognised in 2018, 2019 and 2020 based on the respective vesting periods.

38. Share-Based Payment Transactions (Continued)

RSU scheme of the Company (Continued)

(a) Details of the terms and conditions of the grant of RSUs are as follows:

	Number of RSUs	Fair value as at grant date Per share RMB	Aggregate amount RMB'000	Vesting conditions
RSUs granted to directors:				
— on 1 March 2014	3,600,000	1.72	6,192	Notes (i), (iii)
RSUs granted to employees:				
— on 1 March 2014	19,346,300	1.72	33,276	Notes (i), (iii)
— on 1 March 2014	7,253,700	1.72	32,476	Notes (ii), (iii)
— on 8 July 2015	17,940,000	3.89	69,787	Notes (iv), (v)
— on 1 February 2017	6,000,000	9.37	56,220	Notes (vi), (vii)
Total RSUs granted	54,140,000			

Notes:

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

- — One-third of which have vested for the year ended 31 December 2014 in equal quarterly installments.
- — One-third of which have vested for the year ended 31 December 2015 in equal quarterly installments.
- — One-third of which have vested for the year ended 31 December 2016 in equal quarterly installments.

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

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

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

- — One-third of which have vested for the 12 months ended 7 July 2016 in equal quarterly installments.
- — One-third of which have vested for the 12 months ended 7 July 2017 in equal quarterly installments.
- — One-third of which will vest for the 12 months ended 7 July 2018 in equal quarterly installments.

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

(Expressed in Renminbi unless otherwise indicated)

38. Share-Based Payment Transactions (Continued)

RSU scheme of the Company (Continued)

(a) Details of the terms and conditions of the grant of RSUs are as follows: (Continued)

Notes: (Continued)

(vi) The RSUs granted have a vesting period of three years as follows

- — One-third of which will vest for the 12 months ended 31 January 2018 in equal quarterly installments.
- — One-third of which will vest for the 12 months ended 31 January 2019 in equal quarterly installments.
- — One-third of which will vest for the 12 months ended 31 January 2020 in equal quarterly installments.

(vii) Employees who leave the Group before 31 January 2020 forfeit their right to any unvested RSUs.

(b) The movement of the grant of RSUs during the year are as follows:

	Number of RSUs	
	2017	2016
Outstanding as at 1 January	**9,555,000**	23,630,500
Granted during the year	**6,000,000**	–
Vested during the year	**(7,605,000)**	(12,720,400)
Forfeited during the year	**(1,005,000)**	(1,355,100)
Outstanding as at 31 December	**6,945,000**	9,555,000

(c) Fair value of RSUs and assumptions

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

Fair value of RSUs and assumptions	
Discount rate	17.5%
Risk-free interest rate	3.265%
Volatility	16.0%
Dividend yield	0.0%

The fair value of RSUs granted on 8 July 2015 and 1 February 2017 were measured by the quoted market price of the Company's shares at the grant date, being HK$4.91 per share and HK$10.56 per share, respectively.

39. Acquisition of a Subsidiary

For the year ended 31 December 2016

On 1 April 2016, the Group acquired entire share capital of Tecnomic Components Pte. Ltd. ("Tecnomic") at a consideration of US$800,000 (equivalent to approximately RMB5,554,000). The principal activities of Tecnomic are the distribution and sales of IC and other electronic components. Tecnomic was acquired so as to continue the expansion of the Group's sales of IC and other electronic component operations.

This acquisition has been accounted for using the acquisition method. The fair value of identifiable assets and liabilities of as at the date of acquisition were nil as no assets were acquired or liabilities assumed by the Group from the acquisition. As at 31 December 2017 and 2016, the net assets of Tecnomic was approximately RMB2,909,000 and RMB265,000 respectively.

The goodwill arising from the acquisition of Tecnomic, amounting to approximately RMB5,554,000, represented the future economic benefit from the synergy effect of the business combination. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

No acquisition-related costs had been incurred and excluded from the consideration transferred and had been recognised as an expense for the year ended 31 December 2016.

40. Reconciliation of Liabilities Arising from Financing Activities

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

	Amount due to a related party RMB'000 (note 28)	Bank loans RMB'000 (note 30)	Total RMB'000
At 1 January 2017	38,985	3,797,382	3,836,367
Operating cash flows:			
— Decrease in bank loans used for Ingfin Financing Services	–	(258,788)	(258,788)
Financing cash flows:			
— Addition	–	1,077,721	1,077,721
— Repayment	(20,864)	(3,293,219)	(3,314,083)
Non-cash changes:			
— Waive of consideration payable (note 41)	(18,589)	–	(18,589)
— Exchange realignment	468	(239,011)	(238,543)
At 31 December 2017	–	1,084,085	1,084,085

41. Disposal of Subsidiaries

For the year ended 31 December 2017

On 12 July 2017, the Group disposed 51% of the entire share capital of World Style Group, at a cash consideration of RMB55,500,000, to an independent third party. The net assets of World Style Group at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash	55,500

Analysis of assets and liabilities over which control was lost:

	RMB'000
Goodwill	19,326
Property, plant and equipment	42
Intangible assets	37,820
Inventories	32,694
Trade, bills and other receivables	225,856
Cash and cash equivalents	11,642
Trade and other payables	(209,392)
Income tax payables	(9,778)
Deferred tax liabilities	(6,240)
Net assets disposed of	101,970

41. Disposal of Subsidiaries (Continued)

Gain on disposal of subsidiaries:

	RMB'000
Consideration received	55,500
Net assets disposed of	(101,970)
Waive of consideration payable (note 29)	18,589
Non-controlling interests	53,604
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	770
Gain on disposal	26,493

An analysis of the net cash inflow in respect of the disposal of World Style Group is as follows:

	RMB'000
Cash received	55,500
Less: bank balances and cash of World Style Group	(11,642)
	43,858

Included in the Group's profit for the year is approximately RMB11,520,000 attributable to the disposed business contributed by World Style Group. The Group's revenue for the year includes approximately RMB541,993,000 generated from World Style Group.

During the year, World Style Group contributed approximately RMB4,064,000 to the Group's net operating cash inflow (2016: RMB1,823,000) and nil (2016: nil) to the Group's net cash flow in investing activities and financing activities. The carrying amounts of assets and liabilities of World Style Group at the date of disposal are approximately RMB270,234,000 and RMB219,170,000 respectively.

42. Information About the Statement of Financial Position of the Company

	Notes	2017 RMB'000	2016 RMB'000
Non-current asset			
Interests in subsidiaries		**1,996,393**	1,996,393
Current assets			
Deposits, prepayments and other receivables		**219,721**	–
Amounts due from subsidiaries	(a)	**61,141**	–
Pledged bank deposits		**–**	138,860
Cash and cash equivalents		**19,123**	417,253
		299,985	556,113
Current liabilities			
Trade and other payables		**4,914**	12,089
Income tax payable		**3,264**	1,783
Amounts due to subsidiaries	(a)	**–**	18,037
		8,178	31,909
Net current assets		**291,807**	524,204
Net assets		**2,288,200**	2,520,597
Capital and reserves			
Share capital		**1**	1
Reserves	(b)	**2,288,199**	2,520,596
		2,288,200	2,520,597

Note (a):

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

42. Information About the Statement of Financial Position of the Company (Continued)

Note (b):

Movements in reserves

	Share premium RMB'000	Capital Reserve RMB'000	Share-based compensation reserve RMB'000	Other reserve RMB'000 note (i)	Shares held for the RSU Scheme RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	2,375,533	18,923	23,785	186,196	(108,721)	204,946	(180,066)	2,520,596
Profit for the year	–	–	–	–	–	–	75,849	75,849
Other comprehensive expenses								
Exchange difference arising on translating on foreign operations	–	–	–	–	–	(163,725)	–	(163,725)
Total comprehensive (expense) income for the year	–	–	–	–	–	(163,725)	75,849	(87,876)
Issue at shares under the RSU scheme (note 32(vi))	–	–	(37,827)	–	37,827	–	–	–
Equity-settled share-based compensation expenses (note 38)	–	–	44,581	–	–	–	–	44,581
Interim dividends paid (note 15)	–	–	–	–	–	–	(62,467)	(62,467)
Cancellation of own shares (note 32(iv))	(105,508)	–	–	–	–	–	–	(105,508)
Purchase of shares held for the RSU Scheme (note 32(v))	–	–	–	–	(21,127)	–	–	(21,127)
At 31 December 2017	2,270,025	18,923	30,539	186,196	(92,021)	41,221	(166,684)	2,288,199

42. Information About the Statement of Financial Position of the Company (Continued)

Note (b):

	Share premium RMB'000	Capital Reserve RMB'000	Share-based compensation reserve RMB'000	Other reserve RMB'000 note (i)	Shares held for the RSU Scheme RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	999,878	18,923	24,448	186,196	(8,845)	53,877	(119,571)	1,154,906
Loss for the year	–	–	–	–	–	–	(60,495)	(60,495)
Other comprehensive income								
Exchange difference arising on translating on foreign operations	–	–	–	–	–	151,069	–	151,069
Total comprehensive income for the year	–	–	–	–	–	151,069	(60,495)	90,574
Issue of new shares (note 32(i))	1,719,913	–	–	–	–	–	–	1,719,913
Equity-settled share-based compensation (note 38)	–	–	36,573	–	–	–	–	36,573
Issue of shares under the RSU Scheme (note 32(vii))	37,416	–	(37,416)	–	–	–	–	–
Purchase of own shares (note 32(ii))	(381,674)	–	–	–	–	–	–	(381,674)
Purchase of shares held for RSU Scheme (note 32(iii))	–	–	–	–	(99,876)	–	–	(99,876)
At 31 December 2016	2,375,533	18,923	23,785	186,196	(108,721)	204,946	(180,066)	2,520,596

(i) **Other reserve**

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

(Expressed in Renminbi unless otherwise indicated)

43. Particulars of Principal Subsidiaries of the Company

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

Name of subsidiary	Place of incorporation/ establishment/ operations	Class of share held	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
				Direct		Indirect		
				2017	2016	2017	2016	
Comtech Broadband Corporation Limited ("Comtech Boardband")	Hong Kong	Ordinary	20,000,000 shares	–	–	70%	70%	Sales of electronics components and related products
Comtech Digital HK	Hong Kong	Ordinary	10,000 shares	–	–	100%	100%	Sales of electronics components and related products
Comtech Digital Technology (Shenzhen) Limited* 科通數字技術(深圳)有限公司	PRC	Contributed capital	US$300,000	–	–	100%	100%	Sales of electronics components and related products
Comtech Industrial (Hong Kong) Limited	Hong Kong	Ordinary	10,000 shares	–	–	100%	100%	Sales of electronics components and related products
Comtech Industrial Technology (Shenzhen) Company Limited* 科通工業技術(深圳)有限公司	PRC	Contributed capital	US$500,000	–	–	100%	100%	Provision of media communication and collaboration platforms and solutions
Comtech International (Hong Kong) Limited	Hong Kong	Ordinary	1,000,000 shares	–	–	100%	100%	Sales of electronics components and related products
Cogobuy Limited	Hong Kong	Ordinary	1 share	–	–	100%	100%	Investment holding
Cogobuy.com E-commerce Services (Shenzhen) Limited* 庫購網電子商務(深圳)有限公司 ("Cogobuy E-commerce") (note ii)	PRC	Contributed capital	HK$150,000	–	–	100%	100%	Development of ecommerce software technology and provision of ecommerce services

* For identification purpose only

(Expressed in Renminbi unless otherwise indicated)

43. Particulars of Principal Subsidiaries of the Company (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Class of share held	Issued and fully paid ordinary share capital / registered capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
				Direct		Indirect		
				2017	2016	2017	2016	
FOXSAAS Shenzhen	PRC	Contributed capital	US$300,000	–	–	100%	100%	Development and sales of electronic communication products
INGDAN.com Limited	Hong Kong	Ordinary	HK$1	–	–	70%	70%	Operate the ingdan.com platform
Ingdan Technology Limited	Hong Kong	Ordinary	US$100,000	–	–	100%	100%	Sales of electronics components and related products
Hong Kong JJT Limited	Hong Kong	Ordinary	HK$1	–	–	100%	100%	Investment holding
Hardeggs Holdings Limited	BVI	Ordinary	US$1	–	–	70%	70%	Investment holding
Shenzhen Cogobuy (note ii)	PRC	Contributed capital	RMB1,000,000	–	–	100%	100%	Holder of the ICP license in the PRC
Qianhai Cogobuy	PRC	Contributed capital	HK$200,000,000	–	–	100%	100%	Sales of electronic components and related products
Cogobuy Finance Limited	Hong Kong	Ordinary	HK$1	–	–	100%	100%	Provision of supply chain financing services in Hong Kong
United Wireless Technology (Hong Kong) Limited ("United Wireless")	Hong Kong	Ordinary	HK$1	–	–	– (note i)	51%	Sales of electronic components and related products
Cogobuy Wireless Technology (Hong Kong) Limited ("Cogobuy Wireless HK")	Hong Kong	Ordinary	HK$1	–	–	– (note i)	51%	Sales of electronic components and related products
Cogobuy Wireless Technology (Shenzhen) Limited* 科通無線科技(深圳)有限公司	PRC	Contributed capital	US$300,000	–	–	– (note i)	51%	Sales of electronic components and related products

* For identification purpose only

43. Particulars of Principal Subsidiaries of the Company (Continued)

Notes:

(i) The subsidiaries were disposed on 12 July 2017. Details are set out in note 41.

(ii) Cogobuy E-commerce, the Company's wholly-owned subsidiary, entered into a series of contractual arrangement ("Contractual Arrangements") with Shenzhen Cogobuy, wholly-owned by the Group, and Ms. Yao Yi which enable Cogobuy Ecommerce to:

— exercise effective financial and operational control over Shenzhen Cogobuy;

— exercise equity shareholders' voting rights of Shenzhen Cogobuy;

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

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

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

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

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

43. Particulars of Principal Subsidiaries of the Company (Continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries engage in investment holding and inactive. The aggregation shown below based on the geographical location and nature of business. A summary of these subsidiaries are set out as follows:

Principal activities	Place of incorporation or registration/operations	Number of subsidiaries 2017	2016
Investment holding	Cayman Island	**1**	1
	BVI	**11**	11
	Hong Kong	**1**	1
Inactive	PRC	**7**	6
	Hong Kong	**5**	5
	Singapore	**2**	2
	Italy	**1**	1
	Japan	**1**	1
	Israel	**1**	1
	United States of America	**1**	1

None of the subsidiaries has issued any debt securities outstanding at the end of both years or at any time during both years.

Details of subsidiaries that have non-controlling interests that are material to the Group:

Name of subsidiary	Place of incorporation	Proportion of ownership interest and voting rights held by non-controlling interest		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Comtech Broadband	Hong Kong	**30%**	30%	**(16,802)**	5,663	**5,446**	22,248
Cogobuy Wireless HK[1]	Hong Kong	**–**	49%	**N/A[1]**	8,801	**N/A[1]**	14,508
United Wireless[1]	Hong Kong	**–**	49%	**N/A[1]**	1,404	**N/A[1]**	4,060

[1] Cogobuy Wireless HK and United Wireless were disposed in July 2017.

43. Particulars of Principal Subsidiaries of the Company (Continued)

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

For the year ended 31 December 2017

	Comtech Broadband RMB'000
Current assets	296,218
Non-current assets	48
Current liabilities	(278,113)
Net assets	18,153
Non-controlling interests	5,446

	RMB'000
Revenue	2,758,764
Expenses	(2,811,671)
Loss for the year	(52,907)
Loss attributable to owners of the Company	(37,035)
Loss attributable to the non-controlling interests	(15,872)
Loss for the year	(52,907)
Other comprehensive expense attributable to owners of the Company	(2,171)
Other comprehensive expense attributable to the non-controlling interests	(930)
Other comprehensive expense for the year	(3,101)
Total comprehensive expense attributable to the owners of the Company	(39,206)
Total comprehensive expense attributable to the non-controlling interests	(16,802)
Total comprehensive expense for the year	(56,008)
Net cash outflow from operating activities	(813,766)
Net cash inflow from investing activities	1,572,751
Net cash outflow from financing activities	(1,222,193)
Net cash outflow	(463,208)

43. Particulars of Principal Subsidiaries of the Company (Continued)

For the year ended 31 December 2016

	Cogobuy Wireless HK RMB'000	United Wireless RMB'000	Comtech Broadband RMB'000
Current assets	53,020	29,710	1,829,321
Non-current assets	–	–	63
Current liabilities	(23,412)	(21,424)	(1,755,223)
Net assets	29,608	8,286	74,161
Non-controlling interests	14,508	4,060	22,248

	RMB'000	RMB'000	RMB'000
Revenue	652,541	93,065	3,774,749
Expenses	(634,580)	(90,201)	(3,760,487)
Profit for the year	17,961	2,864	14,262
Profit attributable to owners of the Company	9,160	1,460	9,984
Profit attributable to the non-controlling interests	8,801	1,404	4,278
Profit for the year	17,961	2,864	14,262
Other comprehensive income attributable to owners of the Company	796	248	3,231
Other comprehensive income attributable to the non-controlling interests	765	239	1,385
Other comprehensive income for the year	1,561	487	4,616
Total comprehensive income attributable to the owners of the Company	9,956	1,708	13,215
Total comprehensive income attributable to the non-controlling interests	9,566	1,643	5,663
Total comprehensive income for the year	19,522	3,351	18,878
Net cash outflow (inflow) from operating activities	(475)	2,298	(983,793)
Net cash inflow from investing activities	–	–	467,045
Net cash outflow from financing activities	–	–	613,636
Net cash (outflow) inflow	(475)	2,298	96,888

44. Major Non-Cash Transactions

During the year ended 31 December 2017, an amount of approximately RMB18,589,000 (2016: nil) of the amount due to related parties was waived upon disposal of a subsidiary (note 41).

45. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation of the current year for the purpose of better representation of the Group's activities:

Impairment loss on available-for-sale investment of approximately RMB37,144,000 which had previously been recorded under "Other income" in the consolidated financial statements for the year ended 31 December 2016, was reclassified to "Administrative and other operating expenses". As there was no effect to the consolidated statement of financial position as at 1 January 2016 and thus not presented.

46. Events After Reporting Period

On 18 January 2018, Cogobuy Group, Inc. (a wholly-owned subsidiary of the Company), Mega Smart Group Limited ("Cogobuy Sub") and Rich Wisdom Ventures Limited ("KMT Automation Parent Co.") entered into the share subscription agreement in relation to the acquisition of the entire equity interest in Shanghai KMT Electronic Technology Ltd. Co. 上海科姆特電子技術有限公司 ("Shanghai KMT") and Shanghai KMT Automation Control Technology Ltd. Co. 上海科姆特自動化控制技術有限公司 ("Shanghai KMT Automation") and certain assets owned by KMT Automation Parent Co., Shanghai KMT and Shanghai KMT Automation, by issuing 30% interest in Cogobuy Sub. Further details of the acquisition are set out in the announcement of the Company dated 18 January 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the consolidated results and assets and liabilities of the Group is set out below:

	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000	For the year ended 31 December 2013 RMB'000
Results					
Revenue	**9,613,696**	12,932,794	9,453,389	6,848,365	2,417,277
Profit from operation	**433,634**	649,255	453,439	268,165	122,640
Finance costs	**(209,131)**	(55,984)	(30,070)	(31,160)	(20,192)
Profit before taxation	**352,912**	595,285	423,369	237,005	102,448
Income tax	**(51,609)**	(85,678)	(56,888)	(27,035)	(15,883)
Profit for the year	**301,303**	509,607	366,481	209,970	86,565
Attributable to:					
— Equity shareholders of the Company	**302,025**	478,799	342,875	194,118	82,099
— Non-controlling interests	**(722)**	30,808	23,606	15,852	4,466
Profit for the year	**301,303**	509,607	366,481	209,970	86,565
Earnings per share					
Basic (RMB)	**0.207**	0.347	0.257	0.168	0.089
Diluted (RMB)	**0.206**	0.345	0.253	0.166	0.089

	As of 31 December 2017 RMB'000	As of 31 December 2016 RMB'000	As of 31 December 2015 RMB'000	As of 31 December 2014 RMB'000	As of 31 December 2013 RMB'000
Assets and liabilities					
Total assets	**5,541,007**	8,640,113	4,966,784	3,640,083	1,708,036
Total liabilities	**(1,901,763)**	(4,954,178)	(2,965,233)	(2,015,126)	(1,378,770)
NET ASSETS	**3,639,244**	3,685,935	2,001,551	1,624,957	329,266
Total equity attributable to equity shareholders of the Company	**3,609,869**	3,600,494	1,921,200	1,603,150	325,028
Non-controlling interests	**29,375**	85,441	80,351	21,807	4,238
TOTAL EQUITY	**3,639,244**	3,685,935	2,001,551	1,624,957	329,266

DEFINITIONS

"Articles of Association"	the amended articles of association of the Company adopted on 27 June 2014 and effected on 18 July 2014 (the Listing Date), as amended from time to time
"Board of Directors" or "Board"	the Board of Directors of our Company
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, references in this report to the PRC or China do not include Taiwan, Hong Kong or Macau; the term "Chinese" has a similar meaning
"Cogobuy"	Cogobuy Limited, a limited liability company incorporated in Hong Kong on 6 October 2011 and our indirectly wholly-owned subsidiary
"Cogobuy E-commerce"	Cogobuy.com E-commerce Services (Shenzhen) Limited (庫購網電子商務(深圳)有限公司), a company established in the PRC on 31 July 2012, and our indirectly wholly-owned subsidiary
"Company", "our Company", "the Company"	Cogobuy Group (科通芯城集團), an exempted company incorporated in the Cayman Islands with limited liability on 1 February 2012 and formerly known as Envision Global Group
"Comtech Broadband"	Comtech Broadband Corporation Limited, a company incorporated in Hong Kong on 23 March 2005 and our indirect subsidiary owned as to 70%
"Comtech Digital HK"	Comtech Digital Technology (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on 11 February 2010, and our indirectly wholly-owned subsidiary
"Comtech Industrial"	Comtech Industrial (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on 8 April 2009, and our indirectly wholly-owned subsidiary
"Comtech International"	Comtech International (Hong Kong) Limited, a company incorporated in Hong Kong on 14 July 2000 and our indirectly wholly-owned subsidiary
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this annual report, means Mr. Kang and Envision Global

"Da Cheng"	Da Cheng International Asset Management Company Limited (大成國際資產管理有限公司), a limited liability company incorporated in Hong Kong on 19 March 2009 which is our Shareholder
"Director(s)"	the director(s) of our Company
"Envision Global"	Envision Global Investments Limited, a limited liability company incorporated in the BVI on 1 February 2012 which is wholly-owned by Mr. Kang and is our immediate Controlling Shareholder
"GAAP"	generally accepted accounting principles
"Group", "our Group", "the Group", "we", "us", or "our"	the Company, its subsidiaries and Shenzhen Cogobuy (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the contractual arrangements) or, where the context requires, the companies that currently comprise the subsidiaries of the Company prior to their acquisition by the Company
"GMV"	Gross Merchandise Value
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards
"IC"	integrated circuits
"IoT"	Internet of Things
"Listing Date"	18 July 2014, the date the Shares were listed on the Hong Kong Stock Exchange
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Main Board"	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Memorandum"	the amended memorandum of association of the Company adopted on 27 June 2014 and effected on 18 July 2014 (the Listing Date)
"Mr. Kang"	Mr. Kang Jingwei, Jeffrey (康敬偉), Chairman, Chief Executive Officer and Executive Director of our Company and our Controlling Shareholder

"Mr. Wu"	Mr. Wu Lun Cheung Allen (胡麟祥), Chief Financial Officer, Executive Director and Company Secretary of our Company
"Ms. Yao"	Ms. Yao Yi (姚怡), our substantial Shareholder, the sole shareholder of Shenzhen Cogobuy, and the wife of Mr. Li Feng, one of our members of senior management
"NASDAQ"	National Association of Securities Dealers Automated Quotations
"PRC Legal Advisor"	Broad & Bright Law Firm
"RMB"	Renminbi, the lawful currency of PRC
"Reporting Period"	the year ended 31 December 2017
"RSU Scheme"	the scheme adopted by the Company to grant RSUs to directors, senior management and employees and those of subsidiaries which took effect as at 1 March 2014 and amended on 21 December 2014
"RSUs"	Restricted share units
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of our company with a par value of US$0.0000001 each
"Shareholder(s)"	holder(s) of Share(s) of the Company from time to time
"Shenzhen Cogobuy"	Shenzhen Cogobuy Information Technologies Limited (深圳市可購百信息技術有限公司), a limited liability company established in the PRC on 13 December 2012, wholly-owned by Ms. Yao and, by virtue of the contractual arrangements, accounted for as our subsidiary
"SME"	small and medium enterprise
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Total Dynamic"	Total Dynamic Holdings Limited, a limited liability company incorporated in the BVI on 4 December 2012 which is wholly-owned by Ms. Yao and is our Shareholder
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States