Futong 富通

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

(incorporated in the Cayman Islands with limited liability)

Stock Code: 465

Annual Report 2018

中国领先的企业数字化转型服务提供商

Contents

Chairman's Statement

TO OUR SHAREHOLDERS,

On behalf of the Board of Directors of Futong Technology Development Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), I am pleased to present to all of our shareholders the annual results of the Group for the year ended 31 December 2018 (the "**Year**").

During the Year, the IT market was full of uncertainties. A diverse breadth of new technologies emerged, while in China, IT companies increased their development efforts on Internet +, cloud computing, Big Data, A.I., etc. Their focus also turned from market coverage to in-depth development, both vertically and horizontally. Even amid market uncertainties, various business opportunities were presented to companies. In addition to ensuring the steady development of its traditional businesses, the Group will keep increasing its investment in business transformation gradually, so as to maintain its positive momentum in 2018 and to achieve overall profit growth, particularly in the areas of cloud computing, own brand services and system integration.

The Group continued to work with leading domestic and international technology enterprises, such as IBM, Oracle, AWS and Alibaba etc., in the areas of system integration, cloud computing and related services, among others. Our objectives have been to provide professional commercial technologies and abundant data capacity under the cloud management service banner. In the Year, our wholly-owned subsidiary Futong Cloud Technology Co., Ltd. ("**Futong Cloud**") qualified to become Amazon's advanced consulting partner, an important part of the APN ecosystem. At the same time, with the Group's extensive channels in the ecosystem and solid customer base, as well as its own competitive edges in system integration services, nearly 100 customers from various industries were contracted in China and overseas. A number of projects that were completed by the Group provided vivid examples of how we are able to provide value-added solutions with high functionality and reliability to enterprises requiring digital transformation.

In addition, the Group continued to actively optimize our comprehensive suite of value-added services, achieving encouraging progress in upgrading the Group's own brand products, solutions and technologies, among others. This included "Futong Cloud", which received the 中國雲計算大數據服務卓越產品、解決方案獎 (the China Cloud Computing Big Data Service Excellent Products and Solutions Award) at the 10th China Cloud Computing Conference. Its proprietary product, a private cloud platform called CloudoorSphere, also outperformed other local cloud computing products and received the 2018年中國雲計算領域最佳產品獎 (the 2018 Best Product Award in China's Cloud Computing) at the 2018 China Cloud Computing Technology Application Conference, organized by China Information Industry Trade Association. Furthermore, given its clear advantage and impressive capability in Cloud MSP service, "Futong Cloud" garnered the "2018 Outstanding Cloud Management Service Operator" award of the Cloud500 List (Top 500 cloud computing companies in China) at the 2018 Cloud Computing Ecosystem Summit. The aforementioned accolades not only help to show the significant achievements of the Group during the course of its business transformation, but also represent important recognition of the Group's efforts in product optimization and technological innovation.

With efforts intensifying by enterprise clients in China to transform their operations through digitalization, the Group expects that they will be reducing their investment in equipment products while increasing their investment in new technology applications and services to facilitate the transformation process. In response, the Group will focus on strengthening its proprietary products, intelligent applications and operational, maintenance and service capabilities of its products to match the requirements of this new IT environment. Furthermore, capitalizing on the professional advantages of its subsidiaries in their corresponding professional areas, and with "Futong Cloud" as the core platform, the Group will enhance and optimize its cloud computing products, multi-cloud management solutions and operational and maintenance functions of cloud intelligent technologies. Together with Beijing Futong Dongfang Technology Co., Ltd. at the helm, the Group will focus on intelligent applications for digitalization, system integration and professional services for maintenance of system operation, with the aim of providing highly efficient A.I. applications, services and solutions for enterprise that are undergoing digital transformation in their industry.

In the face of an ever-changing IT market and the rise of new technologies, the Group has integrated the business and human resource structures of its member companies as well as focused on developing specialisation in various business industries. Leveraging more than 20 years of industry experience and strengths amassed over the years, as well as supported by corporations with commercial and technology partners around the world, the Group will step up efforts to transform its business and bolster its image as a premium enterprise IT technology brand. We will offer more professional technology services to enterprises in China and overseas, and will also assist customers in transforming their business through digitalization, with the ultimate objective of turning the Group into an industry-leading enterprise IT service provider.

I would like to take this opportunity to express my sincere gratitude to member companies and our professional teams for their dedicated efforts and contributions over the past year, and also to all of our shareholders for their unwavering trust and support.

Chen Jian
Chairman

Hong Kong, 22 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

The Group specialises mainly in providing enterprise IT infrastructure products, cloud computing products and intelligent digitalised application products, services and solutions in the People's Republic of China ("**PRC**") and is hailed as an innovator in those fields. At the prompt of the transforming market, the Group consolidated its main businesses into three business divisions, namely (i) distribution of traditional enterprise-grade IT products, (ii) development and sale of its own brand cloud products, and (iii) development and sale of intelligent digitalised products and system integration service.

Distribution of traditional enterprise-grade IT products

With leading local and foreign traditional IT companies such as IBM and Oracle as close collaborative partners, the Group has strived to explore cooperation and business opportunities in the advanced technological sectors. Its goal is to maintain its function and role as a technology pioneer in the industry while growing its businesses. For the year ended 31 December 2018 (the "**Year**"), competition intensified in the traditional distribution industry, but distribution business remained a major income source of the Group. Moreover, with an aim to improve the profit margin of distribution business, the Group enhanced its existing product portfolio by reducing or terminating the sales of low profit margin products.

Development and sale of own brand cloud products

As cloud computing matures and becomes more and more popular worldwide, China's cloud computing market has rocketing growth in recent years. These developments have encouraged the Group to speed up developing its own brand cloud products. During the Year, the Group continued to improve the technology and stepped up marketing of its own brand cloud products, to help strengthen their reliability, functionality and market recognition. It also commenced cooperation with leading local and overseas cloud resources providers, such as Oracle, AWS and Alibaba Cloud, to actively offer enterprise customers in China highly efficient applications and solutions based on its cloud products and cloud management services.

Development and sale of intelligent digitalised application products and system integration service

The Group's system integration service business has been gathering growth momentum in recent years. This business division mainly provides customer-specific system structure business solutions and repair and maintenance support to customer's informationalised value-added services. These businesses have become a major income source of the Group. Furthermore, with the drive of emerging technologies like artificial intelligence (AI) and big data, the Group has continued to develop digital smart application products pinpointing the needs of specific industries. Embracing new and advanced information technologies has enabled the Group to more comprehensively serve customers at the business end. For the Year, while offering services to different customers, the Group was also actively gathering data to give it a strong foundation for developing business in the future.

FINANCIAL REVIEW

Revenue

For the Year, revenue of the Group decreased by approximately RMB1,885.8 million or 51.5% as compared with the corresponding period in 2017, to approximately RMB1,777.1 million (2017: approximately RMB3,662.9 million). The decrease was mainly due to the Group's effort to transform its business by reducing or terminating the sale of products with low profit margin.

Gross profit

Gross profit of the Group decreased by approximately RMB39.8 million or 18.0% to approximately RMB182.2 million for the Year (2017: approximately RMB222.0 million) while the gross profit ratio increased from 6.1% to 10.2%. The increase in gross profit ratio was mainly due to the decrease in sale of domestic branded products with low profit margin and the increase in sale of the Group's own branded products and services.

Other income and other losses, net

Other income and other losses, net comprises of mainly interest income from bank deposits, foreign exchange gains or losses, government grants and impairment loss on trade receivables and contract assets. For the Year, net losses from other income and other losses, net amounted to approximately RMB4.4 million (2017: approximately RMB14.7 million), representing a decrease of approximately RMB10.3 million. This decrease was mainly due to combined effect of (i) an increase in net foreign exchange gain of approximately RMB15.7 million; (ii) an increase in interest income of approximately RMB2.5 million; and (iii) an increase of approximately RMB4.8 million in impairment loss on trade receivables and contract assets as a more prudent approach was adopted by the management in tightening the recovery time before commencing legal proceedings on long outstanding debts of traditional business.

Selling and distribution expenses

For the Year, selling and distribution expenses of the Group amounted to approximately RMB94.9 million (2017: approximately RMB139.5 million), representing a decrease of approximately 31.9% compared with the corresponding period in 2017. The decrease was mainly due to the decrease in sales and the decrease in staff costs of certain business units responsible for the sale of products with low profit margin.

Administrative expenses

Administrative expenses of the Group for the Year amounted to approximately RMB45.7 million (2017: approximately RMB51.9 million), representing a decrease of approximately RMB6.2 million or 11.9% compared with the corresponding period in 2017. The decrease was mainly due to the Group's implementation of tight cost control measures during the Year and the decrease in non-recurring professional fees incurred during the corresponding period in 2017.

Finance costs

Finance costs of the Group decreased by approximately RMB32.3 million or 71.2%, from approximately RMB45.3 million for the year ended 31 December 2017 to approximately RMB13.0 million for the Year. The decrease was mainly due to the decrease in borrowings during the Year. After reducing or terminating the sale of products with low profit margin and implementing the measures of tightening operating expenses, the working capital of the Group improved accordingly.

Income tax expense

Income tax expense of the Group for the Year amounted to approximately RMB4.6 million (2017: approximately RMB10.5 million), representing a decrease of approximately RMB5.9 million, or 56.5%, compared with the corresponding period in 2017. The decrease was mainly due to additional deferred tax assets in respect of increase in impairment loss on trade receivables were credited to and off-set by the income tax expense of the Group.

Profit for the year attributable to owners of the Company

For the Year, the profit attributable to owners of the Company was approximately RMB19.4 million (2017: the loss attributable to owners amounted to approximately RMB39.9 million), representing an increase of approximately RMB59.3 million as compared with the corresponding period in 2017. The increase was primarily due to the combined effects of (i) the Group's effort to transform its business by reducing or terminating the sales of products with low profit margin; (ii) the decrease in administrative expenses, selling and distribution expenses and finance costs; and (iii) the increase in allowance for doubtful debts as mentioned above.

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2018, the Group had total assets of approximately RMB893.3 million and net assets of approximately RMB547.8 million (31 December 2017: approximately RMB1,656.8 million and approximately RMB536.4 million, respectively). In respect of the trade receivables and contract assets of the Group which amounted to approximately RMB277.0 million (31 December 2017: approximately RMB772.8 million), net of allowance for doubtful debts of approximately RMB91.5 million (31 December 2017: approximately RMB62.4 million), the management will perform a regular review and implement stringent control measures on trade receivables with a view to ensuring the recovery of trade receivables on the due dates and closely monitoring the Group's liquidity. The Group's bank balances and cash amounted to approximately RMB390.5 million as at 31 December 2018 (approximately RMB237.2 million as at 31 December 2017). Bank and other borrowings amounted to approximately RMB30.7 million (31 December 2017: approximately RMB483.9 million). Taking into account the cash on hand and recurring cash flow from its business, the Group's financial position remained healthy and was sufficient to achieve its business objectives.

As at 31 December 2018, all (31 December 2017: approximately 63.8%) bank borrowings were at fixed interest rates.

As at 31 December 2018, the borrowings of the Group were advanced in RMB while cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

Pledge of Assets

As at 31 December 2018, certain assets of the Group with carrying value of approximately RMB23.3 million (31 December 2017: approximately RMB156.3 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

Net Debt-To-Capital Ratio

The Group's net debt-to-capital ratio as at 31 December 2018 was zero (as at 31 December 2017 was 26.5%). This ratio was calculated as total borrowings less bank balances and cash, and relevant pledged deposits divided by total equity.

FOREIGN EXCHANGE EXPOSURE

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

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

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.2 cents per share for the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on 27 May 2019. The proposed final dividend will be paid on or about 17 June 2019, following the approval by the shareholders of the Company at the 2019 annual general meeting ("2019 AGM").

DIVIDEND POLICY

The Company has adopted a dividend policy ("**Dividend Policy**"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group.

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends after taking into account, among other things, the results of the Group, cash flows and financial condition and position, operating and capital requirements. Depending on factors including the Group's business operation, earnings, surplus, financial conditions and payments by subsidiaries of dividends to the Group, it is the present intention of the Directors that the Company will declare dividends to the Shareholders in amount not less than 30% of the audited consolidated profit after tax of the Group in each financial year. The amount of distributable profits is based on IFRSs, the memorandum and articles of association, the Companies Law, applicable laws and regulations and other factors that are relevant to the Group, including, but not limited to, the consent from certain banks which have credit lines with the Group.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

CLOSURE OF REGISTER OF MEMBERS

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

To determine the identity of shareholders who are entitled to attend and vote at the 2019 AGM

Latest time for lodging transfers:	4:30 pm on Thursday, 9 May 2019
Closure of register of members:	Friday, 10 May 2019 to Thursday, 16 May 2019 (both dates inclusive)
Record date:	Thursday, 16 May 2019
Date of 2019 AGM:	Thursday, 16 May 2019

To determine the shareholders' entitlement to the proposed final dividend

Latest time for lodging transfers:	4:30 pm on Wednesday, 22 May 2019
Closure of register of members:	Thursday, 23 May 2019 to Monday, 27 May 2019 (both dates inclusive)
Record date:	Monday, 27 May 2019
Payment date for final dividend:	On or about Monday, 17 June 2019

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

In order to be eligible for attending and voting at the 2019 AGM and for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than the latest time for lodging transfers as stated above.

ANNUAL GENERAL MEETING

The 2019 AGM of the Company will be held on Thursday, 16 May 2019. Notice of 2019 AGM will be published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company and despatched to the shareholders of the Company in due course.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 290 (31 December 2017: 435) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB95.3 million (2017: approximately RMB115.9 million).

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

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

IMPORTANT EVENTS SUBSEQUENT TO THE FINANCIAL YEAR

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

OUTLOOK

In 2018, competition in China's IT market became more intense and the overall economic environment was full of challenges and uncertainties. Operating under such difficult conditions, the Group continued to adjust its business and integrate internal resources, which helped to lower operating costs, optimize or terminate lower margin businesses and increase sales of its own brand services and proprietary products. These efforts culminated with a business turnaround by the Group, with overall gross profit margin increasing from 6.1% last year to 10.2% for the Year.

Looking at 2019, rapid growth of emerging technologies such as Internet+, cloud computing and AI is expected to continue. The Group will persist in adjusting its strategies to boost its core competitiveness and execute its strategic goals. By focusing on cloud computing, system integration and intelligent digitalized businesses, the Group will be able to improve the reliability and functionality of its proprietary software as well as bolster its overall technological capabilities to ensure the service competence and leadership of its new businesses.

With development of cloud computing as a major trend within the technology sector today, the Group has forged cooperative ties with a number of leading public cloud service providers to deliver cloud platform construction and management services to corporate customers, so as to support the digital transformation of their IT system. The Group's cloud computing products were accepted for trial use by certain well-known customers and won several major awards in 2018, marking important achievements by the Group in its business transformation. Looking ahead, the Group will continue to diligently adhere to its primary strategic development directions and push ahead with developing its own brand of smart products, cloud computing products and businesses in associated services. The Group will also ensure that its traditional system integration and service operations perform in a stable manner.

The Group will continue to employ resource management solutions to ensure that resources are used effectively and maintain high operational efficiency. Also, it will closely monitor and implement strict cost control measures and strengthen control of turnover days of receivables to help lower related financial costs and improve cash flow, thereby maintain the Group's healthy financial status.

Although research and development ("**R&D**") require considerable investment in both time and resources, the Group believes that embracing continuous technological advancement is the only way forward for establishing competitive advantages in today's complex market environment. Consequently, aside from stepping up R&D efforts, strengthening cost controls and honing technologies that have been amassed, the Group will also apply its technological advantages and capability to innovate to ensure R&D resources are effectively used to boost its core competitiveness. In turn, this will help the Group to capture new market trends and seize new opportunities arising from the industry's digital transformation.

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian (陳健先生), aged 58, has been appointed as an executive Director and chairman of the Company and he is one of the co-founders of the Group. He was appointed a member of Remuneration Committee and Nomination Committee of the Company on 5 February 2018. Mr. Chen is also the director of all subsidiaries of the Company, including Futong Technology Co. Ltd. ("**Futong BVI**"), Etong Technology Holdings Limited, Futong Technology (HK) Company Limited, Futong Technology Development Holdings (HK) Limited, Futong Cloud Technology (HK) Company Limited, Futong Transcend Technology (HK) Company Limited, Beijing Futong Dongfang Technology Co., Ltd. ("**Futong Dongfang**"), Futong Times Technology Co., Ltd. ("**Futong Times**"), Beijing Etong Dongfang Technology Co., Ltd. ("**Etong Dongfang**"), Futong Cloud Technology Co., Ltd ("**Futong Cloud**") and Futong Transcend Technology Co., Ltd. ("**Futong Transcend**"). Mr. Chen is responsible for the strategic development and the Group's business direction, and overseeing the self-developed products business. He has over 29 years of experience in IT industry. Mr. Chen graduated from 中國人民解放軍通信工程學院 (Chinese People's Liberation Army Communication Engineering University) with a bachelor's degree in wireless communications engineering.

Ms. Chen Jing (陳靜女士), aged 50, joined the Group in 2005. She is the director of all subsidiaries of the Company. She is responsible for overseeing the day-to-day operations of the Group's administration department and human resources department. She graduated from Beijing Union University (北京聯合大學) with a bachelor degree majoring in mechanical engineering.

Independent non-executive Directors

Mr. Chow Siu Lui (鄒小磊先生), aged 59, was appointed as an independent non-executive Director on 1 December 2016. He is a partner of VMS Investment Group, which is a multi-strategies investment house. Mr. Chow was formerly the chairman of the Mainland Development Strategies Advisory Panel of the Hong Kong Institute of Certified Public Accountants and the Investment Advisory Committee of the Hong Kong Institute of Chartered Secretaries. Previously, he was a member of both of the Listing Committee of the Stock Exchange and the Dual Filing Advisory Group of the Securities and Futures Commission. Mr. Chow is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Chow had been working with one of the four largest certified public accounting firms in the world as a partner for many years. He has an in-depth knowledge on the accounting standards and business regulations in Hong Kong. Mr. Chow has been serving as an independent non-executive director of Fullshare Holdings Limited (stock code: 00607), Genertec Universal Medical Group Company Limited (stock code: 02666), China Everbright Greentech Limited (stock code: 01257) and Shanghai Dazhong Public Utilities (Group) Co., Ltd. (stock code: 01635), the shares of which are listed on the Stock Exchange. He was an independent non-executive director of Sinco Pharmaceuticals Holdings Limited (stock code: 06833) from 1 February 2016 to 8 November 2018, Shi Shi Services Limited (stock code: 08181) from February 2015 to October 2015 and NWS Holdings Limited (stock code: 00659) from March 2012 to June 2012.

Mr. Yuan Bo (袁波先生), aged 56, was appointed as an independent non-executive Director on 5 November 2009. He is the founder and managing director of 百碩同興科技(北京)有限公司 (Bayshore Consulting and Services Co., Ltd.). Mr. Yuan graduated from 清華大學 (Tsinghua University) with a master degree, majoring in economics. He was the general manager of China Business Partner Operation Division of 國際商業機器(中國)投資有限公司 (IBM (China) Investment Co., Ltd.) in 1998. He also served as the chief executive officer of Hi Sun Technology Holding Limited (a subsidiary of Hi Sun Technology (China) Limited, shares of which are listed on the Stock Exchange) in 2002. He was a non-executive director of Geong International Limited, a company whose shares are listed on the London Stock Exchange.

Mr. Lo Kwok Kwei David (羅國貴先生), aged 59, is a partner in a law firm in Hong Kong and has been practising as a solicitor in Hong Kong for over 30 years. Mr. Lo holds the degrees of Bachelor of Laws and Bachelor of Jurisprudence from the University of New South Wales, Australia. He was admitted as a solicitor of the Supreme Court of New South Wales, Australia in 1984. Mr. Lo has been a member of The Law Society of Hong Kong since 1987. Mr. Lo is currently an independent non-executive director of each of eSun Holdings Limited (stock code: 00571) and Man Yue Technology Holdings Limited (stock code: 00894). In addition, he was an independent non-executive director of ENM Holdings Limited (stock code: 00128) from June 2010 to June 2016. All the above companies are listed on the Stock Exchange.

Mr. Yao Yun (姚贇先生), aged 52, was appointed as an independent non-executive Director on 25 May 2018. He holds the Graduate Diploma of Management from the Central Queensland University, Australia. Mr. Yao has in depth knowledge in machinery equipment, intelligence devices and IDC centers operations. He has over 20 years' experience in the role of executive directors in various companies. Mr. Yao is currently the executive director of 先控捷聯電氣股份有限公司 (stock code: 833426), a company listed on the National Equities Exchange and Quotations system in the People's Republic of China.

SENIOR MANAGEMENT

Mr. Zhao Wei (趙偉先生), aged 47, joined the Group in 2003. He was appointed as the chief executive officer ("**CEO**") of the Group on 17 November 2017 and he is also the president of Futong Dongfang and Futong Cloud. Mr. Zhao is responsible for business operations and management of the Group. He graduated from 北京理工大學 (Beijing Institute of Technology), majoring in electronic appliances.

Ms. Shen Ai Ai (沈艾艾女士), aged 35, joined the Group in September 2018, was appointed as the chief finance officer of the Group. Ms. Shen graduated from 北京工商大學 (Beijing Technology and Business University) and obtained a bachelor degree in Accountancy. She is a member of the Chinese Institute of Certified Public Accountant. Prior to joining the Group, Ms. Shen worked in PwC China.

Mr. Xie Hui (謝輝先生), aged 49, joined the Group in 2005. He is the senior vice president of Futong Dongfang and one of the co-founders of the Group. He is responsible for overseeing the day-to-day operations of the regional system integration business of traditional enterprises-grade IT products of the Group. Mr. Xie graduated from 北京航空航天大學 (Beihang University), majoring in mechanical and electrical engineering.

Mr. Peng Jun Lin (彭俊林先生), aged 42, joined the Group in January 2018. He is the senior vice president of Futong Dongfang. He is responsible for overseeing the day-to-day operations of intelligent digitalized application products of the Group. Mr. Peng graduated from 天津紡織工學院 (Tianjin Polytechnic University), majoring in computer science.

Mr. Zhou Qi (周頎先生), aged 44, joined the Group in 1999, he is the vice president of Futong Dongfang. He is responsible for overseeing the day-to-day operations of the industrial system integration business of traditional enterprises-grade IT products of the Group. Mr. Zhou graduated from 上海交通大學 (Shanghai Jiao Tong University), majoring in nuclear engineering.

Mr. Xu Zhi Xin (徐志新先生), aged 45, joined the Group in 2005, he is the vice president of Futong Cloud. He is responsible for overseeing the day-to-day operations and sales of the cloud products of the Group. Mr. Xu graduated from 北京聯合大學 (Beijing Union University), majoring in computer application.

Mr. Leung Ka Lung (梁嘉龍先生), aged 33, joined the Group in 2017, and was appointed as the company secretary of the Company and financial controller of the Group in 2018. He is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor degree in Accountancy from The Hong Kong Polytechnic University. Prior to joining the Group, Mr. Leung worked in an international audit firm as audit manager.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Board is also responsible for performing the corporate governance function of the Company. During the year ended 31 December 2018, the Board has performed the duties and monitored the Company's compliance with the Corporate Governance Code and Corporate Governance Report as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange ("**CG Code**"). The Board has also reviewed the Company's policies and practice on corporate governance.

COMPLIANCE WITH THE CG CODE

During the year ended 31 December 2018, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the CG Code.

THE BOARD OF DIRECTORS

Responsibilities of the Board

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

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

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

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

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

Composition of the Board

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

Executive Directors

Mr. Chen Jian *(Chairman)*
Ms. Chen Jing

Independent non-executive Directors

Mr. Chow Siu Lui
Mr. Yuan Bo
Mr. Lo Kwok Kwei David *(appointed on 5 February 2018)*
Mr. Yao Yun *(appointed on 25 May 2018)*

Mr. Chen Jian is the Chairman of the Board, while Mr. Zhao Wei is the CEO of the Company. As such, the roles of the Chairman and CEO are separate and exercised by different individuals.

During the year ended 31 December 2018, the Board's composition has at all time satisfied the requirements of Rule 3.10 and 3.10(A) of the Listing Rules, which stipulate that there should be at least three independent non-executive Directors (representing at least one-third of the Board), and of whom at least one possess appropriate professional qualifications or accounting or related financial management expertise.

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

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

Appointment and Re-election of Directors

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the year ended 31 December 2018.

Board Meetings

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

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

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

Induction and Continuing Development of Directors

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

The individual training record of each director received for the year ended 31 December 2018 is summarised below:

Name of Director	Briefs and updates on the business, operations and corporate governance matters	Attending seminars, workshops or exhibitions relevant to the business or directors' duties
Executive Directors		
Mr. Chen Jian	✓	✓
Ms. Chen Jing	✓	✓
Independent non-executive Directors		
Mr. Chow Siu Lui	✓	✓
Mr. Yuan Bo	✓	✓
Mr. Lo Kwok Kwei David *(appointed on 5 February 2018)*	✓	✓
Mr. Yao Yun *(appointed on 25 May 2018)*	✓	✓

BOARD COMMITTEES

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

Audit Committee

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

The principal roles and functions of the Audit Committee are:

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

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

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

The Audit Committee held five meetings during the year ended 31 December 2018, at which the financial results and reports, financial reporting and compliance procedures, risk management and internal control matters and the independence and the appointment of the external auditors were reviewed and discussed.

Remuneration Committee

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

The principal roles and functions of the Remuneration Committee are:

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

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

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

The Remuneration Committee held four meetings during the year ended 31 December 2018 to review the remuneration packages of the Directors and senior management. Members of the Remuneration Committee were abstained from voting on resolutions related to his own remuneration package in the meeting.

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

Nomination Committee

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

The principal roles and functions of the Nomination Committee are:

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

The Nomination Committee held three meetings during the year ended 31 December 2018, to review the nomination procedures and process for the nomination of Directors, the structure, size and diversity of the Board, assess the independence of the independent non-executive Directors and make recommendation to the Board on reappointment of Directors.

Summary of Board Diversity Policy

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

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

ATTENDANCE RECORDS AND MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2018 are set out as below:

No. of meetings	General meeting(s)	Board meetings	Audit committee meetings	Remuneration committee meetings	Nomination committee meetings
Executive Directors					
Mr. Chen Jian (note 1)	1/1	10/10	N/A	3/3	2/2
Ms. Chen Jing	1/1	10/10	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Chow Siu Lui	0/1	8/10	5/5	4/4	3/3
Mr. Yuan Bo	1/1	9/0	5/5	4/4	3/3
Mr. Lo Kwok Kwei David (note 2)	1/1	6/7	4/4	3/3	2/2
Mr. Yao Yun (note 3)	0/0	3/4	1/1	0/0	0/0

Notes:

1. Mr. Chen Jian was appointed as a member of each of the Nomination Committee and Remuneration Committee on 5 February 2018.

2. Mr. Lo Kwok Kwei David was appointed as independent non-executive Director, a member of each of the Audit Committee, Nomination Committee and Remuneration Committee on 5 February 2018.

3. Mr. Yao Yun was appointed as independent non-executive Director, a member of each of the Audit Committee, Nomination Committee and Remuneration Committee on 25 May 2018.

COMPANY SECRETARY

Mr. Leung Ka Lung was appointed as the company secretary of the Company on 27 June 2018. The biographical details of Mr. Leung are set out under the section headed "Senior Management". He has taken not less than 15 hours of relevant professional training during the year ended 31 December 2018.

EXTERNAL AUDITORS

BDO Limited has been appointed as the external auditors of the Company for the year ended 31 December 2018. The Audit Committee has the same view with the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

For the year ended 31 December 2018, the total remuneration in respect of services provided by the external auditors of the Company amounted to approximately RMB1,614,000, which can be analysed as follows:

	RMB'000
Audit services	1,400
Interim review services	214

INTERNAL CONTROL, RISK MANAGEMENT AND FINANCIAL REPORTING

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

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

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

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

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

In addition, the Group has engaged RSM Consulting (Hong Kong) Limited ("RSM") to assist the Board and the Audit Committee in ongoing monitoring of internal control systems of the Group and in performing the internal audit functions for the Group. The annual review plan of the Group covers major activities and controls including operational, financial and compliance of the Group's business units. It also covers the changes, since the last annual review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment. A report on the result of internal control review report from RSM was provided to the Audit Committee and the Board in March 2019.

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

SHAREHOLDERS' RIGHTS

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

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

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

CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the year ended 31 December 2018.

Directors' Report

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries are set out in note 31 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 57 to 136 of this annual report.

The Board recommends the payment of a final dividend for the year ended 31 December 2018 of HK$2.2 cents per share. For the year ended 31 December 2017, the Board did not recommend the payment of a final dividend.

Subject to approval of shareholders at the forthcoming annual general meeting, the final dividend will be paid on or about 17 June 2019 to shareholders whose names appear on the register of members of the Company on 27 May 2019.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years is set out on page 137 of this annual report.

SUPPLEMENTAL INFORMATION FOR BUSINESS REVIEW

A fair review of the Group's business, particulars of important events affecting the Group that have occurred during the financial year, an analysis using financial key performance indicators and an indication of likely future development in the Group's business are set out in "Management Discussion and Analysis" section with headings "Business Review", "Financial Review" and "Outlook" on page 4, pages 5 to 7 and pages 9 to 10 of this annual report, respectively. An "Environmental, Social and Governance Report" is included on pages 40 to 50, which included a discussion on the Group's environmental policies and performance, the key relationships with its employees, customers and suppliers and others that have a significant impact on the Group.

Principal Risks and Uncertainties Facing the Group

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

Reliance on a small number of key suppliers and products

The Group is an authorized distributor of certain enterprise IT products in the PRC for such as IBM and Oracle. The Group's five largest suppliers (on group basis) accounted for approximately 75.2% and 88.0% of the Group's total purchases for each of the years ended 31 December 2018 and 31 December 2017, respectively.

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

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

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

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

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

Inventory risks

The inventory of the Group consists mainly of enterprise IT products and other components. These comprised approximately 7.6% and 19.4% of the Group's current assets as at the years ended 31 December 2018 and 31 December 2017 respectively.

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

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

Trade, bills and other receivables and contract assets and liquidity risks

Trade, bills and other receivables and contract assets accounted for approximately 40.1% and 54.7% of the Group's total assets as at the years ended 31 December 2018 and 31 December 2017 respectively. There may be a risk of delay in payment by the Group's customers from their respective credit period, which in turn may result in an impairment loss provision. There is no assurance that the Group will be able to fully recover its receivables from the customers or their settlements are made on a timely manner. In the event the settlements from the customers are not made in full or not on a timely manner, the financial position, profitability and cash flow of the Group may be adversely affected.

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

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

Foreign exchange considerations

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

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

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

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

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

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

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

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

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

Compliance with the Relevant Laws and Regulations

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27(a) to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

The service agreements entered into by the Company with each of the executive Directors, which are currently in force and were in force during the year ended 31 December 2018, contain permitted indemnity provisions for the benefit of the executive Directors.

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

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

During the year ended 31 December 2018, no claims were made against the Directors.

MANAGEMENT CONTRACTS

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

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to approximately RMB310.8 million.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2018 are set out in note 25 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers, on individual entity basis, accounted for approximately 33.4% of the total revenue for the year and sales to the largest customer, on individual entity basis, included therein amounted to approximately 20.9%. Purchases from the Group's five largest suppliers, on individual entity basis, accounted for approximately 75.2% of the total purchases for the year and purchases from the largest supplier, on individual entity basis, included therein amounted to approximately 23.0%.

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

DIRECTORS

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

Executive Directors
Mr. Chen Jian *(Chairman)*
Ms. Chen Jing

Independent non-executive Directors
Mr. Chow Siu Lui
Mr. Yuan Bo
Mr. Lo Kwok Kwei David *(appointed on 5 February 2018)*
Mr. Yao Yun *(appointed on 25 May 2018)*

According to article 105 of the Company's Articles, not less than one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Chow Siu Lui will retire as Director and, being eligible, offer himself for re-election as Director at the 2019 AGM. Mr. Yuan Bo will retire as Director and, although being eligible, will not offer himself for re-election as Director at the 2019 AGM.

According to article 109 of the Company's Articles, any Director appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at such meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting. Mr. Yao Yun (who was appointed an independent non-executive Director by the Board with effect from 25 May 2018), will retire as Directors and, being eligible, offer himself for re-election as Directors at the 2019 AGM.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE AGREEMENT

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

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

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

DIRECTORS' INTERESTS IN CONTRACT

Details of the connected transactions and the related party transactions are set out on pages 37 to 38 and pages 126 to 127 of this annual report respectively, and the management confirmed that all disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied. Save for the above, no other Director or entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

Name of Director/ Chief Executive	Capacity/nature of interest	Number of Ordinary shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jian	Beneficial owner/interest in controlled corporations	215,708,000 (Notes 1, 2, 3, 4 and 5)	69.30
Chen Jing	Beneficial owner	1,238,000 (Note 6)	0.40
Zhao Wei	Beneficial owner	1,248,000 (Note 7)	0.40

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

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

Notes:

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

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

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

4. 10,710,550 of these shares are held by Long Joy Group Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by Long Joy Group Limited.

5. 1,194,000 shares of the Company are held by Mr. Chen Jian as beneficial owner

6. 1,238,000 shares of the Company are held by Ms. Chen Jing as beneficial owner

7. 1,248,000 shares of the Company are held by Mr. Zhao Wei as beneficial owner

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

Save as disclosed above and those as disclosed under the heading "Discloseable Interests and Short Positions of Substantial Shareholders and Other Persons under the SFO" below, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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

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

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

The total number of outstanding share options as at the Annual Report Date was 3,300,000 which represent approximately 1.06% of the total number of issued shares of the Company as at that date.

As at the Annual Report Date, the total number of shares of the Company available for issue pursuant to the grant of further options under the Share Option Scheme is 26,700,000 shares, representing approximately 8.58% of the total number of issued shares of the Company as at the Annual Report Date.

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the year ended 31 December 2018 were as below:

Name or category of participants	Date of grant	Exercise price (HK$)	Exercise period	As at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2018
Directors								
Mr. Yuan Bo	15 June 2011	1.810 (Note 1)	15 December 2011 to 14 June 2021	300,000	–	–	–	300,000
	24 August 2015	1.172 (Note 2)	24 August 2015 to 23 August 2025	300,000	–	–	–	300,000
Ms. Chen Jing (Note 5)	18 January 2016	1.004 (Note 3)	18 January 2016 to 17 January 2026	400,000	–	–	–	400,000
Sub-total				1,000,000	–	–	–	1,000,000
Chief executive								
Mr. Zhao Wei (Note 6)	18 January 2016	1.004 (Note 3)	18 January 2016 to 17 January 2026	400,000	–	–	–	400,000
Employees	18 January 2016	1.004 (Note 3)	18 January 2016 to 17 January 2026	1,400,000	–	–	(700,000)	700,000
	14 October 2016	1.250 (Note 4)	14 October 2016 to 13 October 2026	1,200,000	–	–	–	1,200,000
Sub-total				2,600,000	–	–	(700,000)	1,900,000
Total				**4,000,000**	**–**	**–**	**(700,000)**	**3,300,000**

Notes:

1. All the options granted have been vested on 15 December 2011. The closing price of the shares of the Company on the date of grant was HK$1.8.

2. All the options granted have been vested on 24 August 2015. The closing price of the shares of the Company on the date of grant was HK$0.9.

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

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

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

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

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

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

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

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

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

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

5. These share options were granted to Ms. Chen Jing before she became an executive Director.

6. These share options were granted to Mr. Zhao Wei before he became the chief executive officer.

Details of the value of share options granted are set out in note 28 to the consolidated financial statements.

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

As at 31 December 2018, the following persons or corporations (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or chief executive of the Company:

Long positions in the shares of the Company:

Name	Capacity/nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital (%)
China Group Associates Limited (Note 1)	Beneficial owner	153,947,250	49.46
Rich China Investments And Trading Ltd. (Note 2)	Beneficial owner	28,421,100	9.13
Ms. Zhang Xin (Note 3)	Interest of spouse	215,708,000	69.30
Mr. Li Xiaoyong	Beneficial owner	26,440,000	8.49
Rich World Development Ltd. (Note 4)	Beneficial owner	21,435,100	6.89

Notes:

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

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

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

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

Save as disclosed above, there was no person or corporation, other than a Director or chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO as at 31 December 2018.

CONTRACT OF SIGNIFICANCE

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

CONTINUING CONNECTED TRANSACTIONS

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

	2018		2017	
	Annual cap RMB'000	**Actual amount RMB'000**	Annual cap RMB'000	Actual amount RMB'000
Connected transactions entered into with 北京深思軟件股份有限公司 (Beijing Deep Thought Software Co., Ltd.) ("**Beijing Deep Thought**") – Purchase and sales of goods and provision of services	**13,500**	**217**	13,500	866

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

Beijing Deep Thought is owned as to approximately 55.37% by Mr. Chen Jian, a controlling shareholder and an executive Director and is a connected person of the Company. The transactions contemplated under the 2015 Purchase and Supply Agreement constitute continuing connected transaction of the Company.

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

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

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

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

The Directors also confirm the above continuing connected transactions also constitute related party transactions under the accounting standards, details of which are set out in note 32 to the financial statements. Related party transactions set out in note 32 to the financial statements other than those transactions disclosed above are not considered to be connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on pages 14 to 23 of this annual report.

AUDITORS

BDO Limited has been appointed as auditors of the Company for the year ended 31 December 2018.

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

For and on behalf of the Board

Chen Jian
Chairman

Hong Kong, 22 March 2019

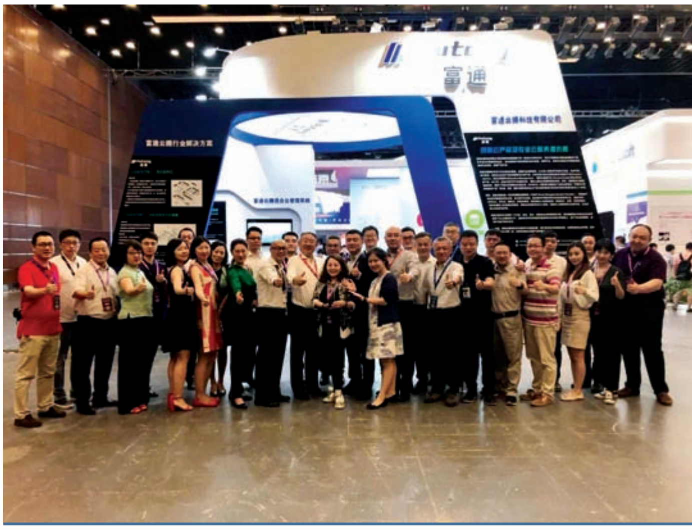
Environmental, Social and Governance Report

Over the years, while creating product value and fulfilling its economic responsibilities, the Group has never forgotten about its corporate social and environmental responsibilities, hence has consistently strived to satisfy the expectations of all stakeholders including its customers, suppliers and employees, and also the environment and society. This Environmental, Social and Governance Report has taken into account the Company and the subsidiaries of the Company as listed in note 31 to the consolidated financial statements.

The Group complied with the provisions set out in Appendix 27 "Environmental, Social and Governance Reporting Guide" for the year ended 31 December 2018.

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

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



The Group participated in the 10th China Cloud Computing Conference

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

The Group participated in the 10th China Cloud Computing Conference and was awarded 中國雲計算大數據服務卓越產品及解決方案獎 (the China Cloud Computing Big Data Service Excellent Products and Solutions Award). This achievement exemplifies the high recognition that the Group garners from authorities of the cloud computing industry. Furthermore, its proprietary product, a private cloud platform called CloudoorSphere, received 2018年中國雲計算領域最佳產品獎 (the 2018 Best Product Award in China's Cloud Computing) at the 2018 China Cloud Computing Technology Application Conference. In 2018, CloudoorSphere successfully implemented digital transformation for some customers; and helped them in improving application deployment speed, so as to reduce costs; and enhance the agility of business operations. Another proprietary product of the Group a hybrid cloud platform called cloudoorManagement, which successfully built hybrid cloud management platforms for customers, and in turn are able to provide enterprises with multiple data centers, heterogeneous virtualization and unified operation management in the cloud environment, so as to improve resource utilization efficiency and reduce costs.

As at the end of 2018, the Group owned copyrights of a total of 105 software, 7 of which were added during the year. Currently, the Group, via forging cooperative relationship with leading public cloud service providers, helps customers transfer their business from the tradition IT environment to the public cloud environment, and it also cooperates with many innovative small and medium enterprises in the cloud computing and big data industries to provide customers with suitable value-added cloud service. At the same time, the Group has been putting major effort on developing proprietary cloud computing software products, that it may offer enterprise customers a comprehensive suite of cloud services and solutions. In the process of serving customers, the Group strictly complies with the Customer Information Act and its provisions, and requires employees to use customer information solely for providing customers with better products, services and for technical purposes. Unless given customer consent or required by law, it prohibits employees to disclose or provide customer information to third-parties.

As an IT service provider trusted over the years by customers, the Group abides by laws and regulations international and also the rules and regulations in the countries or regions it operates, plus the service and product standards and practices of manufacturers it works with and the industry. It carries out relevant audits each year matching partner manufacturers' requirement. In 2018, there were no incidents of serious violation of product and service rules and related litigations and disputes.

The Group was honourably qualified to become Amazon's Advanced Consulting Partner

Provide product and technical training of IBM products to partners

Seminars on big data transformation were launched in major cities e.g. Shanghai, Shenzhen and Xian, etc. in corporation with Oracle.

RESPONSIBLE PROCUREMENT

The Group fully understands the importance of environmental protection and its social obligations. Thus, in addition to promoting sustainable business development, it partners with major suppliers to promote environmental protection, jointly paving the way for green development.

IBM, a supplier of the Group, and a company that has long been committed to environmental protection and energy conservation, as evidenced by its products and services. The company's hardware products emphasize the importance of environmental protection, energy saving, space saving and low noise; and most of the packaging materials the company uses are largely environmentally friendly and recyclable. The Group and IBM worked together on the "Green Horizon" program and jointly launched its upgraded version in 2015 and 2016, which entailed the use of findings from 30 years of global weather data and forecasting experience to uncover the causes of compound atmospheric pollution and its formation patterns. The program continued in 2018.

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

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

The Group recognizes the importance of anti-corruption and anti-fraud, which are stated clearly as the Group's social responsibility. The Group complies with international and government anti-corruption laws and regulations, as well as strictly enforces anti-corruption supervision. It upholds the principle of "prevention is better than cure", as such has been proactive in giving anti-corruption prevention education.

In 2018, the Group reviewed and updated a series of rules including Provision on the Management of Anti-corruption and Anti-bribery, Procedures for Investigation into Anti-corrouption and Anti-bribery, and Rules for Monitoring and Examination of Compliance and Management of and Control over Risks relating to Anti-corruption and Anti-bribery.

In 2018, the Group offered two anti-corruption pre-job training courses to new recruits. The anti- corruption training materials on the APP end were revised and a new series of anti-corruption tests were launched and all employees were required to complete the anti-corruption test on the APP end. In July 2018, the Group provided anti-corruption training to the management team and emphasized that Futong's employees must understand and meet the compliance requirements, that anything outside contract arrangements are strictly prohibited and there should be no acts of deception or concealment; clear stating the Group has zero tolerance to illegal acts.

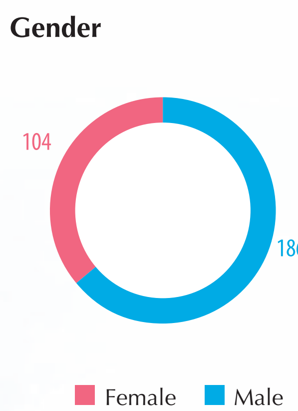
Embracing anti-corruption and anti-bribery work, the Group has devoted considerable effort on setting up a prevention-based anti-corruption supervision system with four tiers namely the Board, the management team, Business and Functions Department and the Internal Audit Department. As for supervision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

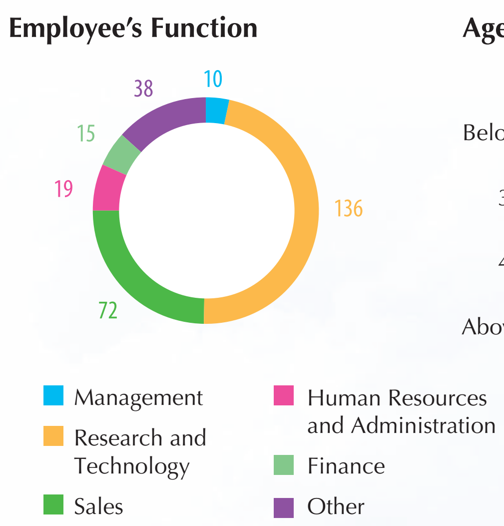
During the Reporting Period, the Group strictly abided by all laws and regulations related to bribery, extortion, fraud and money laundering. No employees had been found having committed any acts of bribery, fraud and corruption, and no such complaints from a third party had been received by the Group.

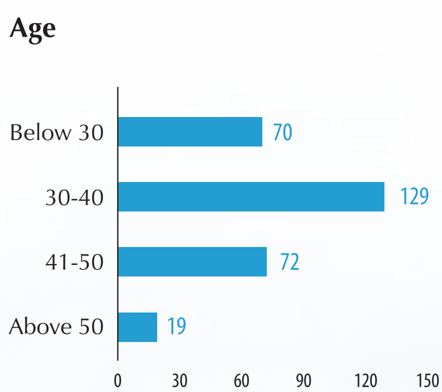
PEOPLE-ORIENTED, DEDICATED TO FOSTERING GROWTH OF EMPLOYEES

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

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







ADHERE TO EQUAL EMPLOYMENT, PROMOTE DIVERSIFICATION

Considering the characteristics of the industry in which the Group belongs and with a staff predominantly made up of those specializing in science and engineering, the male and female employee ratio is significantly affected. Despite that, Futong has adhered to the diversification principle, insisting on fairness in recruitment and protecting equally the right to employment of both men and women. In 2018, female employees accounted for 35.9% of the entire workforce of the Group. In addition, Futong opened 20 offices across the country which also contributed to local employment. During the year, it also stepped up recruitment of fresh graduates, thus opening more job opportunities for university graduates.

PROTECT LEGAL RIGHTS AND INTERESTS OF AND IMPROVE COHESION AMONG EMPLOYEES

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

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

CARE FOR EMPLOYEES, ENHANCE STAFF CONTENT

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

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

OPTIMIZE SALARY SYSTEM TO MOTIVATE EMPLOYEES

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

Futong 2018
Annual Meeting

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

PROMOTE OCCUPATIONAL HEALTH AND PROVIDE MEDICAL SECURITY

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

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

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

IMPROVE STAFF TRAINING SYSTEM TO BUILD A PROFESSIONAL TEAM

To help new recruits quickly assimilate into the enterprise, the Group provides various forms of training. Such training is customized by the training development team and taught by the Group's senior lecturers. On top of learning in great detail about the Group's corporate culture, personnel, financial position, administrative and business systems, participants are also coached on operational skills in IT, availing to them the opportunity to benefit from comprehensive training services. In 2018, two groups of new recruits, more than 65 in total, received the training. Moreover, training videos on different topics were added in the Group's online training APP to allow employees to sharpen their skills anytime, anywhere.

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

The Group also organizes weekly training for technical staff, covering topics such as the Group's products and technologies. Furthermore, experts from the Group's partners are invited to explain the relevant products and technologies to help hone the overall skills of technical staff.

PARTICIPATE IN SOCIAL AND CHARITABLE ACTIVITIES, PROMOTE COMMUNITY DEVELOPMENT

In terms of minimizing the Group's impact on the environment and natural resources, it has always upheld the philosophy of "taking root in society, giving back to society", through policies and practical measures that proactively fulfil its corporate social responsibility. Apart from taking the initiative of joining the Greening Integration of Urban and Rural Beijing activity so as to contribute to the ecological protection of the motherland, it has also actively organized and encouraged its staff participation in various social and charitable activities. In October 2018, the Group invited employees to join a disabled elderly visit in Pinggu District. In the days ahead, the Group will continue to organize activities aim at protecting the environment and also for aiding charitable causes, so as to demonstrate its care for and commitment to giving back to society. In this way, the Group can also advance and sustain development of the corporation, employees and society all at the same time.

ACTIVELY PROMOTE ENERGY CONSERVATION AND EMISSION REDUCTION TO PROTECT THE ENVIRONMENT

The Group embraces green operation, energy conservation and lowering carbon emissions as part of its efforts to protect environment. It has in place a set of rules and mechanisms to help it cut down the usage of resources and carbon emissions, as well as encourages employees to follow such rules and mechanisms in the daily operational activities. In addition, via a review of its energy usage situation, the Group identifies areas that have high energy and consumption and in which improvements in efficiency need to be made.

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

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

2. Separate waste and set up individual locations for recyclable waste and non-recyclable waste;

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

4. Encourage employees to lead a “low-carbon commute” lifestyle by, taking public transport at least once a week instead of driving;

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

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

7. All employees are strictly required to switch off their computers and other electronic equipment before leaving the office after work to lower electricity consumption, and for equipment that can be switched off at night, designated staff members of the administration department will check whether such equipment are switched off after office hours;

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

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

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

11. To transition towards a paper less office, double-sided printing is preferred, if keeping paper records of documents is necessary. Furthermore, reuse is encouraged by way of using recycled paper for facsimiles, notes, memos, etc. The volume of paper procured by the Group consequently decrease in 2018 due to the aforementioned measures.

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

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

Since the Group does not engage in manufacturing, its major emissions are restricted to greenhouse gases from the consumption of electricity in the office; sewage from office water consumption, domestic waste and carbon dioxide, methane, nitrous oxide, and other gases from the combustion of vehicle fuel. The Group does not typically produce any toxic waste gas and waste water that have serious impact on the environment. As the Group has been continuously implementing measures to reduce energy consumption and emissions, such efforts have led to a decline in water and electricity consumption by 30% and 31% respectively in 2018 when compared with 2017. Moreover, the total greenhouse gas emissions have been cut by 34%, and waste discharged has declined sharply by more than 33%. The Group will exert still greater effort towards energy conservation and reducing emissions as part of its commitment to contribute to the betterment of society. The Group has complied with all relevant laws and regulations that have a significant impact on the Group in connection with (i) emissions; (ii) staff employment, including meeting labour standards providing a safe working environment and protecting employees from occupational hazards; (iii) product/service responsibility; and (iv) anti-corruption, bribery, extortion, fraud and money laundering.

The following is the data of the Group's energy consumption, emission of greenhouse gases, waste and sewage for the year ended 31 December 2018.

Emission Indicator	**Unit**	**2018**	**2017**
Direct emissions of greenhouse gas	Tonne of CO_2e	14.53	19.54
Of which: Direct emissions of carbon dioxide (CO_2)	Tonne	14.48	19.47
Direct emissions of methane (CH_4)	Tonne	0.02	0.02
Direct emissions of nitrous oxide (N_2O)	Tonne	0.03	0.05
Indirect emissions of greenhouse gas	Tonne of CO_2e	278.95	425.66
Total emissions of greenhouse gas	Tonne of CO_2e	293.48	445.20
Emissions of greenhouse gas/staff per capita	Tonne of CO_2e/staff	0.8709	0.8886
Total waste discharge	Tonne	28.21	42.22
Waste discharge/staff per capita	Tonne/staff	0.0837	0.0843
Total discharge of domestic sewage	Square meter	1,653.92	2,355.29

Energy and Water Consumption Indicator	**Unit**	**2018**	**2017**
Electricity consumption	(kWH)	401,786.80	586,027.00
Gasoline consumption	(L)	7,406.98	8,948.97
Comprehensive energy consumption	(tonne of standard coal)	57.34	81.64
Comprehensive energy consumption/staff per capita	Tonne of standard coal/staff	0.1701	0.1629
Paper consumption	(kg)	2,245.20	3,043.66
Municipal water consumption	(tonne)	1,951.11	2,776.35
Comprehensive water consumption/staff per capita	tonne/staff	5.7896	5.5416

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

OPINION

We have audited the consolidated financial statements of Futong Technology Development Holdings Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") set out on pages 57 to 136, which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Revenue recognition on sales of goods

Refer to note 7 and the Group's significant accounting policies in relation to revenue recognition set out in note 4.15 to the consolidated financial statements

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

Our response

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

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

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

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

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

KEY AUDIT MATTERS *(Continued)*

Write-down of inventories

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

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

Our response

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

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

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

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

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

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

KEY AUDIT MATTERS *(Continued)*

Impairment of trade receivables

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

We have identified impairment of trade receivables as a key audit matter because such an impairment require management's best estimate over the expected losses arising from the collection of the debts incurred as at the balance sheet date and at the same time trade receivables represent a significant asset on the Group's balance sheet as at 31 December 2018. The recoverability of trade receivables is crucial in the Group's cash management.

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

Our response

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

– Evaluating the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of expected credit losses;

– Assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices;

– Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and

– Inspecting cash receipts from customers after the financial year end relating to trade receivables balances as at 31 December 2018, on a sample basis.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

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

Hong Kong, 22 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	**1,777,113**	3,662,931
Cost of sales and services		**(1,594,960)**	(3,440,894)
Gross profit		**182,153**	222,037
Other income	8	**10,550**	9,302
Other losses, net	8	**(14,913)**	(23,978)
Selling and distribution expenses		**(94,949)**	(139,469)
Administrative expenses		**(45,740)**	(51,915)
Profit from operations		**37,101**	15,977
Finance costs	9	**(13,014)**	(45,263)
Loss on disposal of interests in associates	18	**(822)**	–
Share of profit/(loss) of associates	18	**720**	(85)
Profit/(loss) before income tax expense	10	**23,985**	(29,371)
Income tax expense	11	**(4,574)**	(10,523)
Profit/(loss) and total comprehensive income for the year		**19,411**	(39,894)
Profit/(loss) and total comprehensive income for the year attributable to:			
Owners of the Company		**19,427**	(39,924)
Non-controlling interests		**(16)**	30
		19,411	(39,894)
Earnings/(loss) per share			
Basic and diluted (RMB)	15	**0.06**	(0.13)

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**24,588**	26,990
Intangible assets	17	**1,811**	2,752
Interests in associates	18	**–**	6,764
Deferred tax assets	26	**30,326**	29,033
Total non-current assets		**56,725**	65,539
Current assets			
Inventories	19	**63,731**	309,443
Trade, bills and other receivables	20	**338,038**	906,128
Contract assets	21	**19,939**	–
Tax recoverable		**946**	–
Pledged deposits	22	**23,349**	138,468
Bank balances and cash	23	**390,523**	237,207
Total current assets		**836,526**	1,591,246
Current liabilities			
Trade, bills and other payables	24	**159,071**	635,677
Contract liabilities	21	**155,664**	–
Bank and other borrowings	25	**30,725**	483,866
Tax payable		**–**	802
Total current liabilities		**345,460**	1,120,345
Net current assets		**491,066**	470,901
NET ASSETS		**547,791**	536,440
CAPITAL AND RESERVES			
Share capital	27(a)	**27,415**	27,415
Reserves		**515,735**	504,368
Equity attributable to owners of the Company		**543,150**	531,783
Non-controlling interests		**4,641**	4,657
Total equity		**547,791**	536,440

On behalf of the directors

Chen Jian	**Chen Jing**
Executive Director	*Executive Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000 (note 27b(i))	Merger reserve RMB'000 (note 27b(ii))	Share options reserve RMB'000	Statutory reserve RMB'000 (note 27b(iii))	Retained profit RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	27,415	81,538	219	1,528	70,671	395,606	576,977	4,626	581,603
Loss and total comprehensive income for the year	–	–	–	–	–	(39,924)	(39,924)	30	(39,894)
Recognition of equity-settled share-based payments (note 28)	–	–	–	372	–	–	372	–	372
Lapse of share options (note 28)	–	–	–	(518)	–	–	(518)	–	(518)
Appropriation to statutory reserves	–	–	–	–	1,084	(1,085)	(1)	1	–
Dividends (note 14)	–	–	–	–	–	(5,123)	(5,123)	–	(5,123)
Balance at 31 December 2017 as originally presented	27,415	81,538	219	1,382	71,755	349,474	531,783	4,657	536,440
Increase in ECLs in trade and bills receivables and contract assets in respect of application of IFRS 9 (note 2)	–	–	–	–	–	(10,006)	(10,006)	–	(10,006)
Effect of deferred tax as result of increase in ECLs (note 2)	–	–	–	–	–	1,892	1,892	–	1,892
Restated balance at 1 January 2018	**27,415**	**81,538**	**219**	**1,382**	**71,755**	**341,360**	**523,669**	**4,657**	**528,326**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**19,427**	**19,427**	**(16)**	**19,411**
Recognition of equity-settled share-based payments (note 28)	**–**	**–**	**–**	**54**	**–**	**–**	**54**	**–**	**54**
Lapse of share options (note 28)	**–**	**–**	**–**	**(236)**	**–**	**236**	**–**	**–**	**–**
Appropriation to statutory reserves	**–**	**–**	**–**	**–**	**3,491**	**(3,491)**	**–**	**–**	**–**
Balance at 31 December 2018	**27,415**	**81,538**	**219**	**1,200**	**75,246**	**357,532**	**543,150**	**4,641**	**547,791**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Profit/(loss) before income tax expense		**23,985**	(29,371)
Adjustments for:			
Interest income		**(4,652)**	(2,152)
Loss/(gain) on disposal of property, plant and equipment		**408**	(202)
Finance costs		**13,014**	45,263
Depreciation of property, plant and equipment		**4,821**	4,407
Amortisation of intangible assets		**941**	941
Written-off on intangible assets		**–**	124
Impairment losses on inventories		**5,398**	13,415
Share of (profit)/loss of associates		**(720)**	85
Loss on disposals of interests in an associate		**822**	–
Write back of inventories		**(9,325)**	(4,941)
Provision for impairment loss on trade receivables and contract assets, net of reversal		**18,839**	14,047
Recognition/(reversal) of recognition of share-based payment expenses		**54**	(146)
Operating profit before working capital changes		**53,585**	41,470
Decrease in trade, bills and other receivables		**551,558**	346,725
Increase in contract assets		**(32,252)**	–
Decrease in inventories		**249,639**	115,569
Decrease in trade, bills and other payables		**(476,606)**	(345,569)
Increase in contract liabilities		**155,664**	–
Cash generated from operations		**501,588**	158,195
Income taxes paid		**(5,753)**	(9,185)
Net cash generated from operating activities		**495,835**	149,010
Cash flows from investing activities			
Interest income received		**4,652**	2,152
Proceeds on disposals of property, plant and equipment		**–**	214
Purchases of property, plant and equipment		**(1,934)**	(6,866)
Withdrawal of pledged bank deposits		**124,146**	426,062
New pledged bank deposits		**(9,027)**	(337,832)
Net cash inflow of disposals of an associate		**6,499**	–
Net cash generated from investing activities		**124,336**	83,730

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds from new bank borrowings		**30,725**	306,798
Repayments of bank borrowings		**(483,866)**	(426,660)
Interest paid		**(13,014)**	(45,263)
Dividends paid		**–**	(5,123)
Net cash used in financing activities		**(466,155)**	(170,248)
Net increase in cash and cash equivalents		**154,016**	62,492
Cash and cash equivalents at 1 January	23	**237,207**	172,648
Effect of foreign exchange rate changes		**(700)**	2,067
Cash and cash equivalents at 31 December	23	**390,523**	237,207

1. GENERAL INFORMATION

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

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

As at 31 December 2018, the Company's immediate and ultimate parent is China Group Associates Limited which was incorporated in the British Virgin Islands (the "**BVI**"). Its ultimate controlling party is Mr. Chen Jian, who is also the chairman and executive director of the Company.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards and IAS 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration

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

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following tables summarised the impact, net of tax, of transition to IFRS 9 on the opening balance of retained profit as of 1 January 2018 as follows (increase/(decrease)):

	RMB'000
Retained profit	
Retained profit as at 31 December 2017	349,474
Increase in expected credit losses ("**ECLs**") in trade and bills receivables and contract assets (note 2.1A(ii)(a))	(10,006)
Effect of deferred tax as result of increase in ECLs	1,892
Restated retained profit as at 1 January 2018	341,360

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss ("**FVTPL**"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for de-recognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments (Continued)

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI criterion**"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

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

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments (Continued)

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Accounting policies would be applied to the Group's financial assets as follows:

Amortised costs	These are subsequently measured using effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	These are subsequently measured at fair value. Interest income calculated using effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments (Continued)

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Carrying amount as at 1 January 2018 under IAS 39** RMB'000	**Carrying amount as at 1 January 2018 under IFRS 9** RMB'000
Trade receivables	Loans and receivables (note 2.1A(ii)(a))	Amortised cost	772,840	762,834
Bills receivables (note)	Loans and receivables (note 2.1A(ii)(a))	Debt instruments at FVOCI	60,378	60,378
Other receivables	Loans and receivables (note 2.1A(ii)(b))	Amortised cost	44,449	44,449
Pledged deposits	Loans and receivables	Amortised cost	138,468	138,468
Bank balances and cash	Loans and receivables	Amortised cost	237,207	237,207

Note:

In managing the liquidity, the Group discounted part of its bills receivables with full recourse to financial institutions. The Group manages such bills receivables using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets. Therefore, at 1 January 2018, bills receivables of RMB60,378,000 is reclassified from loans and receivables to financial asset measured at FVOCI upon the adoption of IFRS 9, with fair value gains or losses accumulated in reserve and reclassified to profit or loss when they are derecognised. However, the directors of the Company assessed that the fair value of bills receivables approximated their carrying amounts given all bills receivables have a short maturity, and therefore no adjustment was made to the carrying amounts as at 1 January 2018.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "ECLs model". IFRS 9 requires the Group to recognised ECLs for trade and bills receivables, financial assets at amortised costs and contract assets earlier than IAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured based on the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade, bills and other receivables and contract assets using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets (Continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade and bills receivables and contract assets

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECLs which adopts lifetime ECLs for all trade and bills receivables and contract assets. To measure ECLs, trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and days past due. The contract assets have substantially the same risk as the trade and bills receivables. Loss allowance as at 1 January 2018 was determined as follows for trade and bills receivables and contract assets:

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets (Continued)

Impact of the ECL model *(Continued)*

(a) Impairment of trade and bills receivables and contract assets *(Continued)*

1 January 2018	Current	Less than 30 days past due	More than 30 days past due	More than 90 days past due	More than 12 months past due	Total
ECL rate (%)	0.10%	0.28%	1.07%	6.43%	13.12%	
Gross carrying amount (RMB'000)	610,728	74,927	58,037	47,490	42,036	833,218
Loss allowance (RMB'000)	608	208	622	3,052	5,516	10,006

The increase in loss allowance for trade and bills receivables and contract assets upon the transition to IFRS 9 as of 1 January 2018 were RMB6,599,000 and RMB3,407,000, respectively. These decreased by RMB3,985,000 for trade and bills receivables and decreased by RMB2,738,000 for contract assets during the year ended 31 December 2018.

(b) Impairment of other receivables

The Group concluded that the impact of ECLs on the Group's other receivables at amortised cost as at 1 January 2018 is insignificant.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets (Continued)

Impact of the ECL model *(Continued)*

As a result of the above changes, the impact of the new IFRS 9 impairment model results in additional impairment allowance as follows:

	RMB'000	RMB'000
Allowance as at 1 January 2018 under IAS 39		62,443
Impairment recognised for trade and bills receivables in respect of ECLs	6,599	
Impairment recognised for contract assets in respect of ECLs	3,407	10,006
Allowance as at 1 January 2018 under IFRS 9		72,449

(iii) Hedge accounting

Hedge accounting under IFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained profit as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

A. IFRS 9 – Financial Instruments *(Continued)*

(iv) Transition (Continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application ("**DIA**") of IFRS 9:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

B. IFRS 15 – Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained profit at the date of initial application (that is, 1 January 2018).

The Group has assessed the impact of adopting IFRS 15 on its financial statements. Based on the assessment, the adoption of IFRS 15 has no significant impact on the Group's revenue recognition.

As a result, the financial information presented for 2017 is not restated.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

B. IFRS 15 – Revenue from Contracts with Customers *(Continued)*

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(a)	Enterprise IT products	The Group has determined that for contracts with customers under sales of enterprise IT products, as there may be one or more than one promises, which include the provision of warranty services, the Group has determined that the warranty is assurance-type and thus the Group concludes that the services should not be accounted for under IFRS 15. For the performance obligation related to sales of enterprise IT products, the Group determines that customers obtain control of the enterprise IT products when the goods are delivered to and have been accepted. Revenue from these contracts are thus recognised upon when the customers accepted the enterprise IT products. Invoices are issued according to contractual terms and are usually payable within 30 to 90 days. Uninvoiced amounts are presented as contract assets. Consideration received in advance from customers for obligation to transfer the enterprise IT products are presented as contract liabilities.	**Impact** IFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of IFRS 15, the Group has made reclassification from trade, bills and other receivables to contract assets since under IFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise this as a contract asset. The Group has also made reclassification from trade, bills and other payables to contract liabilities since under IFRS 15, if there is any obligation to transfer goods to a customer for which the entity has received consideration from a customer, an entity should recognise a contract liability.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

B. IFRS 15 – Revenue from Contracts with Customers *(Continued)*

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(b)	Provision of services	The Group has determined that the customers simultaneously receives and consumes the benefits of the Group's performance and thus the Group concludes that the services should be recognised overtime. Revenue is recognised over time as those services are provided. Invoices for provision of services are issued on a monthly basis and are usually payable within 30 to 90 days.	**Impact** IFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of IFRS 15, the Group has made reclassification from trade, bills and other receivables to contract assets since under IFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise this as a contract asset. The Group has also made reclassification from trade, bills and other payables to contract liabilities since under IFRS 15, if there is any obligation to transfer goods to a customer for which the entity has received consideration from a customer, an entity should recognise a contract liability.

As of 1 January 2018, an increase in contract assets of RMB206,944,000 and a decrease in trade, bills and other receivables of the same amount were recognised whereas an increase in contract liabilities of RMB183,952,000 and a decrease in trade, bills and other payables of the same amount were recognised.

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

2.1 Adoption of new/revised IFRSs – effective 1 January 2018 *(Continued)*

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

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

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this first year.

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

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

IFRS 16	Leases[1]
IFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations, IAS 12 Income Taxes and IAS 23 Borrowing Costs[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 Effective for annual periods beginning on or after 1 January 2019

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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

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

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

IFRS 16 – Leases

This standard is effective for accounting periods beginning on or after 1 January 2019. IFRS 16, which upon the effective date will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

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

As at 31 December 2018, the Group's total future minimum lease payments under the non-cancellable operating lease amounted to RMB10.4 million. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

3. BASIS OF PREPARATION

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

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

The consolidated financial statements have been prepared under historical cost except for bill receivables, which are stated at fair value at the end of each reporting period. The measurement bases are fully described in note 4.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.1 Basis of consolidation *(Continued)*

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

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

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

4.2 Subsidiaries

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Associates

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

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

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

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

4.4 Foreign currency translation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.4 Foreign currency translation *(Continued)*

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

4.5 Property, plant and equipment

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Intangible assets

Internally generated intangible assets (research and development costs)

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.7 Impairment of tangible and intangible assets

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

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

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

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

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

4.8 Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.9 Cash and cash equivalents

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

4.10 Provisions and contingent liabilities

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

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

4.11 Leases

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

The Group as lessee

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as following measurement category:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

(ii) Impairment loss on financial assets

As noted in Note 2.1, the Group recognises loss allowances for ECL on trade and bills receivables, contract assets and financial assets measured at amortised cost. Details of ECL have been described on Note 2.1A(ii).

Interest income on credit-impaired financial assets is calculated based on amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non-credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

Effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. Effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.12 Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4.13 Financial instruments (accounting policies applied until 31 December 2017)

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the group's previous accounting policy.

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. All financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Financial instruments (accounting policies applied until 31 December 2017) *(Continued)*

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

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

(iii) Financial liabilities

There are no changes in accounting policies on financial liabilities and these are described in Note 4.12(iii).

(iv) Effective interest method

There are no change in accounting policies on effective interest method and these are described in Note 4.12(iv).

(v) Equity instruments

There are no change in accounting policies on equity instruments and these are described in Note 4.12(v).

(vi) Derecognition

There are no change in accounting policies on derecognition and these are described in Note 4.12(vi).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.14 Share capital and share premium

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

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

4.15 Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.15 Revenue recognition (accounting policies applied from 1 January 2018) *(Continued)*

(i) Sales of enterprise IT products

Customers obtain control of the enterprise IT products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the enterprise IT products. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days. In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer. Un-invoiced amounts are presented as contract assets.

IFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of IFRS 15, the Group has to made reclassification from trade, bills and other receivables to contract assets since under IFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise a contract asset.

(ii) Provision of services

Revenue is recognised over time as those services are provided. Invoices for provision of services are issued on a monthly basis and are usually payable within 30 to 90 days. IFRS 15 did not result in significant impact on the Group's accounting policies. Same as above, upon the adoption of IFRS 15, the Group has made reclassification from trade, bills and other receivables to contract assets since under IFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise this as a contract asset.

(iii) Other income

Other service income is recognised when services are provided.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.16 Revenue recognition (accounting policies applied until 31 December 2017)

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

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

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

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

There is no change in accounting policies on other service income and interest income and these are described in Note 4.15.

4.17 Contract assets and liabilities (accounting policies applied from 1 January 2018)

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

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contract asset is recognised when the Group completes the delivery under such services contracts but yet certified by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the output method then the Group recognises a contract liability for the difference.

4.18 Borrowing costs

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.19 Government grant

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

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

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

4.20 Employee benefits

(i) Retirement benefits

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

(ii) Short term employee benefits

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Income taxes

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.22 Share-based payments

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

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

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

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

4.23 Related parties

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

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

(ii) has significant influence over the Group; or

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.23 Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

4.24 Dividend

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Depreciation

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

(ii) Net realisable value of inventories

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

As at 31 December 2018, the carrying amount of inventories is RMB63,731,000 (31 December 2017: RMB309,443,000).

(iii) Impairment of receivables

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

(iv) Estimates of current tax and deferred tax

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

6. SEGMENT REPORTING

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

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

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

	2018 **RMB'000**	2017 RMB'000
Customer A	**370,598**	*

* Amounts of revenue from corresponding customer were less than 10% of the total revenue for the year ended 31 December 2017.

7. REVENUE

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

	2018 **RMB'000**	2017 RMB'000
Revenue from contracts with customer within the scope of IFRS 15:		
Sales of enterprise IT products	**1,281,443**	3,351,279
Provision of services	**495,670**	311,652
	1,777,113	3,662,931

7. REVENUE *(Continued)*

In the following tables, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

	2018 RMB'000	2017 RMB'000
Primary geographical markets:		
PRC	**1,777,113**	3,662,931
Major products/services:		
Enterprise IT products	**1,281,443**	3,351,279
Provision of services	**495,670**	311,652
	1,777,113	3,662,931
Timing of revenue recognition:		
At a point in time	**1,281,443**	3,351,279
Transferred over time	**495,670**	311,652
	1,777,113	3,662,931

The following table provides information about trade and bills receivables, contract assets and contract liabilities from contracts with customers.

	31 December 2018 RMB'000	1 January 2018 RMB'000
Receivables	**279,681**	616,268
Contract assets (note 2.1B and note 21(a))	**19,939**	206,944
Contract liabilities (note 2.1B and note 21(b))	**155,644**	183,952

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the sales of enterprise IT products. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

Contract liabilities mainly relate to the advance consideration received from customers. The balance of RMB158,634,000 as of 1 January 2018 has been recognised as revenue during the year from performance obligations satisfied due to the completion of services.

The group has applied the practical expedient to its sales contracts for enterprise IT products and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for enterprise IT products that had an original expected duration of one year or less.

8. OTHER INCOME AND OTHER LOSSES, NET

	2018 RMB'000	2017 RMB'000
Other income:		
Interest income	**4,652**	2,152
Government grants (note)	**4,699**	4,963
Others	**1,199**	2,187
	10,550	9,302
Other losses, net:		
(Loss)/gain on disposals of property, plant and equipment	**(408)**	202
Foreign exchange gains/(losses)	**6,719**	(8,965)
Provision for impairment loss on trade receivables and contract assets, net of reversal	**(18,839)**	(14,047)
Write-off of prepayments to suppliers	**(1,763)**	–
Others	**(622)**	(1,168)
	(14,913)	(23,978)

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

9. FINANCE COSTS

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

10. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

Profit/(loss) before income tax expense is arrived at after charging/(crediting):

	2018	2017
	RMB'000	RMB'000
Auditor's remuneration		
– Audit service	**1,400**	1,680
– Non-audit service	**214**	200
Amortisation of intangible assets	**941**	941
Cost of inventories recognised as an expense, net of write back of inventories	**1,176,991**	3,159,657
Research and development costs	**6,936**	5,723
Depreciation of property, plant and equipment	**4,821**	4,407
Minimum lease payments paid under operating lease in respect of rented premises	**10,196**	11,630
Staff cost (including directors' emoluments):		
– Salaries and wages	**86,710**	104,355
– Contributions to retirement benefit scheme	**8,580**	11,185
– Equity-settled share-based payment	**54**	372
	95,344	115,912

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. These subsidiaries are required to contribute a 8% to 22% (2017: 9% to 23%) of payroll costs (subject to a cap) to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% (2017: 5%) of relevant payroll costs (subject to a cap) to the scheme, which contribution is matched by employees.

Total cost charged to profit or loss of RMB8,580,000 (2017: RMB11,185,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2018. As at 31 December 2018 and 2017, the amount due but not paid to the schemes is insignificant.

11. INCOME TAX EXPENSE

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

	2018 RMB'000	2017 RMB'000
Current tax – Hong Kong profits tax		
Over provision in respect of prior years	**(11)**	(687)
Current tax – PRC income tax		
Tax for the year	**3,986**	11,542
Deferred tax (note 26)		
Charged/(credited) for the year	**158**	(332)
Effect of change in tax rate (note (ii))	**441**	–
	4,574	10,523

Note:

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

(ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the 'Bill') which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong that are not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

(iii) Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Company's subsidiaries, except for a subsidiary has been granted continuously on a three years interval with a qualification of high-tech enterprise which entitles this subsidiary a preferential income tax rate of 15% from 2016 and onwards, the tax rate of the Company's subsidiaries in the PRC is 25% in 2018 and 2017.

11. INCOME TAX EXPENSE *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Profit/(loss) before income tax expense	**23,985**	(29,371)
Tax calculated at applicable tax rate of 25% (2017: 25%)	**5,996**	(7,343)
Effect of different tax rates	**(3,854)**	12,446
Tax effect of share of (profit)/loss of associates	**(180)**	140
Tax effect of tax losses not recognised	**1,341**	2,564
Tax effect of expenses not deductible for tax purposes	**1,389**	2,716
Utilisation of deductible temporary differences previously not recognised	**(118)**	–
Income tax expense	**4,574**	10,523

12. DIRECTORS' EMOLUMENTS

The aggregate amounts of the emoluments paid or payable to the directors are as follows:

	Fees RMB'000	Salaries and allowances RMB'000	Share-based payment RMB'000	Defined contribution scheme RMB'000	Total RMB'000
2018					
Executive directors					
Mr. Chen Jian (i)	–	2,092	–	198	2,290
Ms. Chen Jing (ii)	–	1,004	1	125	1,130
Independent non-executive directors					
Mr. Chow Siu Lui	247	–	–	–	247
Mr. Yuan Bo	247	–	–	–	247
Mr. Lo Kwok Kwei David (iii)	226	–	–	–	226
Mr. Yao Yun (iv)	148	–	–	–	148
	868	3,096	1	323	4,288

12. DIRECTORS' EMOLUMENTS *(Continued)*

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

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

Notes:

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

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

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

(iv) Mr. Yao Yun was appointed as the director of the Company on 25 May 2018.

(v) Ms. Zhang Yun resigned on 17 November 2017.

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

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

No directors received any emoluments from Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2018 and 2017. No directors waived or agreed to waive any emoluments during the year ended 31 December 2018 and 2017.

13. THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, two (2017: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining three (2017: two) individuals were as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and other emoluments	**3,653**	1,759
Defined contribution scheme	**373**	203
	4,026	1,962

Their emoluments were within the following bands:

	2018 **Number of individuals**	2017 Number of individuals
HK$1,000,000 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**2**	–
	3	2

Senior management

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

	2018 **Number of individuals**	2017 Number of individuals
Nil to HK$1,000,000	**9**	4
HK$1,000,001 to HK$1,500,000	**1**	4
HK$1,500,001 to HK$2,000,000	**2**	–
	12	8

14. DIVIDENDS

	2018	2017
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2016 final dividend: HK1.9 cents, equivalent to RMB1.6 cents per share	**–**	5,123

Subsequent to the end of the reporting period, a final dividend of HK2.2 cents (approximately equivalent to RMB1.9 cents) per share in respect of the year ended 31 December 2018, totalling approximately HK$6,848,000 (approximately RMB5,820,000) based on the total number of issued ordinary shares as at the date of issuance of these consolidated financial statement, has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

For the year ended 31 December 2017, the directors did not recommend the payment of a final dividend.

15. EARNINGS/(LOSS) PER SHARE

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

	2018	2017
	RMB'000	RMB'000
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share	**19,427**	(39,924)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	**311,250**	311,250

For the years ended 31 December 2018 and 2017, the computation of diluted earnings/(loss) per share does not assume the exercise of the Company's outstanding share options as the exercise price of these options was higher than the average market price of shares for the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST					
At 1 January 2017	24,353	11,023	25,871	5,803	67,050
Re-classification	1,703	(1,703)	(79)	79	–
Additions	–	508	5,473	885	6,866
Disposals	–	(199)	–	(1,190)	(1,389)
Exchange alignment	(1,760)	(26)	(12)	(82)	(1,880)
At 31 December 2017 and 1 January 2018	**24,296**	**9,603**	**31,253**	**5,495**	**70,647**
Additions	**–**	**109**	**1,825**	**–**	**1,934**
Disposals	**–**	**–**	**(13,162)**	**(3,521)**	**(16,683)**
Exchange alignment	**1,211**	**16**	**9**	**56**	**1,292**
At 31 December 2018	**25,507**	**9,728**	**19,925**	**2,030**	**57,190**
ACCUMULATED DEPRECIATION					
At 1 January 2017	6,403	6,218	22,853	5,693	41,167
Depreciation	520	676	2,998	213	4,407
Written back on disposals	–	(199)	–	(1,178)	(1,377)
Exchange alignment	(437)	(12)	(10)	(81)	(540)
At 31 December 2017 and 1 January 2018	**6,486**	**6,683**	**25,841**	**4,647**	**43,657**
Depreciation	**514**	**848**	**3,240**	**219**	**4,821**
Written back on disposals	**–**	**–**	**(12,790)**	**(3,485)**	**(16,275)**
Exchange alignment	**325**	**11**	**7**	**56**	**399**
At 31 December 2018	**7,325**	**7,542**	**16,298**	**1,437**	**32,602**
NET BOOK VALUE					
At 31 December 2018	**18,182**	**2,186**	**3,627**	**593**	**24,588**
At 31 December 2017	17,810	2,920	5,412	848	26,990

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

(b) As at 31 December 2017, all leasehold land and buildings were pledged as securities for the Group's bill payables (note 24). No leasehold land and buildings were pledged as at 31 December 2018.

17. INTANGIBLE ASSETS

	Software copyright RMB'000	Capitalised research and development cost RMB'000	Total RMB'000
COST			
At 1 January 2017	4,706	1,407	6,113
Written off	–	(124)	(124)
At 31 December 2017, 1 January 2018 and 31 December 2018	**4,706**	**1,283**	**5,989**
ACCUMULATED AMORTISATION			
At 1 January 2017	1,013	1,283	2,296
Amortisation	941	–	941
At 31 December 2017 and 1 January 2018	**1,954**	**1,283**	**3,237**
Amortisation	**941**	**–**	**941**
At 31 December 2018	**2,895**	**1,283**	**4,178**
NET BOOK VALUE			
At 31 December 2018	**1,811**	**–**	**1,811**
At 31 December 2017	2,752	–	2,752

For the years ended 31 December 2018 and 2017, the Group's development costs for the completed projects are amortised on straight-line method at 20% per annum.

18. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Cost of investment in associates, unlisted	**–**	7,337
Share of accumulated losses	**–**	(573)
	–	6,764

18. INTERESTS IN ASSOCIATES *(Continued)*

Details of the Group's associates are as follows:

Name	Place of incorporation, operation and principal activity	Percentage of ownership interests/voting rights/ profit share	
		2018	2017
Futong Technology Advanced Business Service Limited ("**Futong Technology**") (note (iii))	Investment holdings in Hong Kong	–	49
北京富通金信計算機系統服務有限公司 Beijing Futong Jinxin Computer System Service Co., Ltd. ("**Beijing Futong Jinxin**") (note (i) and (ii))	Provision of enterprise IT products and services in the PRC	–	49

Notes:

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

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

(iii) The Group held a 49% interest in Futong Technology and accounted for the investment as an associate. In October 2018, the Group disposed all of the interests in Futong Technology to another shareholder of Futong Technology for cash proceeds of approximately RMB6,499,000. This transaction has resulted in the Group recognising a disposal loss of RMB822,000 in profit or loss.

	RMB'000
Proceeds of disposal	6,499
Less:	
Cost of investment in associate	(7,337)
Share of gain in associate	16
Disposal loss	(822)

18. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information (immaterial associates)

Year ended 31 December	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**–**	6,764
Aggregate amount of the Group's share of those associates:		
– Loss generated from operations	**–**	(85)
– Share of profit in disposed associate	**720**	–
Total comprehensive income	**720**	(85)

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Trading stocks	**105,878**	355,434
Less: Impairment for inventories	**(42,147)**	(45,991)
	63,731	309,443

The Group has recognised a reversal of RMB9,325,000 (2017: RMB4,941,000), being part of an inventories write down made in the previous financial years, as the inventories were sold above the carrying amounts in 2018.

20. TRADE, BILLS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**305,382**	835,283
Less: allowance for doubtful debts	**(48,322)**	(62,443)
	257,060	772,840
Bills receivables (note)	**22,621**	60,378
Total trade and bills receivables	**279,681**	833,218
Prepayments	**25,072**	28,461
Deposits	**6,644**	15,297
Other receivables	**26,641**	29,152
	338,038	906,128

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

Note:

For the year ended 31 December 2018, the Group discounted part of its bills receivables with full recourse to financial institutions. In the event of default by the debtors, the Group is obliged to pay the financial institutions the amount in default. Interest is charged at 3.29% – 6.30% (2017: 4.10% – 4.82%) on the proceeds received from the financial institutions until the date the debtors pay. The Group is therefore exposed to the risks of credit losses and late payment in respect of the discounted debts.

The Group manages its bills receivables using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets and hence, they are classified as financial asset measured at FVOCI after adoption of IFRS 9.

The discounting transactions do not meet the requirements in IFRS 9 for de-recognition of financial assets as the Group has not transferred the significant risks and rewards of the discounted bills receivables. At 31 December 2018, bills receivables of RMB9,725,000 (2017: RMB26,068,000) continue to be recognised in the Group's financial statements even though they have been legally transferred to the financial institutions. The proceeds of the discounting transactions are included in bank and other borrowings (note 25) until the trade debts are collected or the Group settles any losses suffered by the financial institutions. At 31 December 2018, the bank borrowings amounted to RMB9,725,000 (2017: RMB26,068,000). The carrying amount of the transferred assets and their associated liabilities approximates their fair value in 2018.

Because the trade debts have been transferred to the financial institutions legally, the Group did not have the authority to determine the disposition of the trade debts.

For the year ended 31 December 2018, the Group allows an average credit period of 30 – 90 days (2017: 30 – 90 days) to its trade customers. For certain major customers such as the state owned enterprises, the credit term which will be negotiated by management individually. Details of the Group's credit policy are set out in note 35(a). The following is an ageing analysis of trade and bills receivables net of allowance for doubtful debts as at the end of each reporting period based on invoice date.

	2018 **RMB'000**	2017 RMB'000
0 – 30 days	**55,461**	406,856
31 – 60 days	**20,475**	113,068
61 – 90 days	**50,922**	103,604
More than 90 days	**152,823**	209,690
Total	**279,681**	833,218

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

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

	2018 **RMB'000**	2017 RMB'000
Less than 1 month past due	**12,325**	74,006
1 to 3 months past due	**32,973**	57,856
More than 3 months past due	**21,968**	87,991
Total	**67,266**	219,853

The Group recognised impairment loss based on the accounting policy stated in note 4.12(ii) and note 4.13(ii) for the years ended 31 December 2018 and 2017, respectively.

Trade and bills receivables of RMB67,266,000 (2017: RMB219,853,000) were past due but not impaired as at 31 December 2018. These related to a large number of diversified customers for whom there was no recent history of default. The Group does not hold any collaterals or other credit enhancements over these balances.

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

	2018 **RMB'000**	2017 RMB'000
At beginning of year	**62,443**	48,595
Effect of adoption of IFRS 9	**10,006**	–
At beginning of year (restated)	**72,449**	48,595
Impairment losses recognised	**39,450**	14,047
Reversal of impairment loss	**(32,924)**	–
Bad debts written off	**–**	(199)
Reallocation to contract assets	**(30,903)**	–
Exchange alignment	**250**	–
At end of year	**48,322**	62,443

21. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018 RMB'000	1 January 2018 RMB'000 (Note 2.1B)	31 December 2017 RMB'000
Contract assets arising from:			
Sale of enterprise IT products	**63,155**	237,847	–
Less: Impairment	**(43,216)**	(30,903)	–
	19,939	206,944	–

Typical payment terms which impact on the amount of contract assets are as follows:

Sale of enterprise IT products

The Group may take a 10% – 40% deposit on acceptance of the order, with the remainder of the consideration payable at the earlier of delivery of the finished goods. If the customer cancels the order, then the group is immediately entitled to receive payment for the goods sold.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is within one year.

Movements in the loss allowance for impairment of contract assets during the year are as follows:

	2018 RMB'000
Reallocation from trade and bills receivables on 1 January 2018	**30,903**
Impairment losses recognised	**12,313**
Balance as at 31 December 2018	**43,216**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade and bills receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade and bills receivables appropriately grouped by similar loss pattern. The calculation reflects the probability weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions.

21. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(a) Contract assets *(Continued)*

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	Gross carrying amount RMB'000	Expected loss rate %	Loss allowance RMB'000
As at 31 December 2018			
Collective assessment			
Current	**11,926**	**0.09%**	**11**
Less than 1 month past due	**–**	**N/A**	**–**
1 to 3 months past due	**280**	**2.86%**	**8**
More than 90 days	**8,402**	**7.74%**	**650**
	20,608		**669**
Individual assessment	**42,547**	**100%**	**42,547**
	63,155		**43,216**

(b) Contract liabilities

The balance as at 31 December 2018 arose upon the adoption of IFRS 15. Details are set out in note 2.1B.

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract liabilities arising from:			
Sale of enterprise IT products	**155,664**	183,952	–

Typical payment terms which impact on the amount of contract liabilities are as follows:

Sale of enterprise IT products

As noted above, the 10% – 40% deposit the Group receives on sales of enterprise IT products remains as a contract liability until such time as the work completed to date outweighs it.

21. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(b) Contract liabilities *(Continued)*

Movements in contract liabilities are as follows:

	RMB'000
Balance as at 1 January 2018 upon adoption of IFRS 15 (note 2.1B)	183,952
Amount recognised as revenue during the year (note 7)	(158,634)
New contract liabilities increased during the year	130,084
Exchange alignment	262
Balance at 31 December 2018	155,664

22. PLEDGED DEPOSITS

Pledged deposits represent deposits placed to banks as security for the banking facilities granted to the Group (note 25), bills issued by the banks (note 24) and performance guarantee letters issued by the banks.

Pledged deposits carry interest at fixed rates which range from 0.01% to 2.03% (2017: 0.01% to 1.68%) per annum.

23. BANK BALANCES AND CASH

Bank balances and cash comprise of cash and cash equivalents.

At 31 December 2018, the balance included bank balances and cash in the PRC of approximately RMB386,325,000 (2017: 232,390,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Bank balances carry interest at variable rates which range from 0.01% to 0.35% (2017: 0.01% to 0.35%) per annum.

24. TRADE, BILLS AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**138,969**	325,065
Bills payables	**–**	109,216
Receipts in advance (note 21)	**–**	183,952
Other payables and accruals	**20,102**	17,444
	159,071	635,677

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

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

	2018 RMB'000	2017 RMB'000
Current or less than 1 month	**67,964**	93,735
1 to 3 months	**33,540**	81,614
More than 3 months	**37,465**	149,716
	138,969	325,065

Bills payables are normally issued with a maturity of not more than 120 days (2017: 120 days). As at 31 December 2017, the bills payables were secured by leasehold land and buildings with carrying amount of RMB17,810,000 and pledged deposit of RMB34,228,000. There is no banking facility for issuance of bills not yet utilised as at 31 December 2018 (2017: RMB280,360,000).

The average credit period on purchases of goods was 30 – 90 days (2017: 30 – 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the acceptable timeframe.

25. BANK AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Secured bank borrowings:		
Repayable within one year	–	338,866
Unsecured bank borrowings:		
Repayable within one year	30,725	145,000
	30,725	483,866
Fixed-rate borrowings	30,725	308,666
Variable-rate borrowings	–	175,200
	30,725	483,866

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

	2018	2017
Fixed-rate borrowings	3.29% – 6.30%	5.00% – 7.00%
Variable-rate borrowings	–	4.66% – 5.66%

No interest was capitalised for the years ended 31 December 2018 and 2017.

The amount of banking facilities and the utilisation at 31 December 2018 are set as follows:

	2018 RMB'000	2017 RMB'000
Banking facilities		
– Secured	90,000	824,866
– Unsecured	51,000	211,000
	141,000	1,035,866
Amount utilised	30,725	483,866

25. BANK AND OTHER BORROWINGS *(Continued)*

The secured banking facilities were secured by the following:

	2018 RMB'000	2017 RMB'000
Pledged deposits	**3,000**	104,240

At 31 December 2018, the Group's bank borrowings of RMB21,000,000 (2017: RMB40,000,000), with a clause which entitles the bank an unconditional right to demand immediate repayment, are subject to the fulfilment of certain financial covenants, as are commonly found in lending arrangements with financial institutions, relating to certain ratio on the individual company's statement of financial position. If the financial covenants are breached, the drawn down facilities would become payable on demand.

The Company regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayments so long as the Group continues to meet these requirements. Details of the Group's management of liquidity risk are set out in note 35(b).

26. DEFERRED TAX ASSETS

(a) Deferred tax assets recognised

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

	Write-down of inventories RMB'000	Impairment losses on trade receivables and contract assets RMB'000	Accrued expenses, unutilised tax losses and others RMB'000	Total RMB'000
At 1 January 2017	5,403	11,220	12,078	28,701
Credited/(charged) for the year	3,262	3,463	(6,393)	332
At 31 December 2017 and 1 January 2018	**8,665**	**14,683**	**5,685**	**29,033**
Initial application of IFRS 9	**–**	**1,892**	**–**	**1,892**
Restated balance as at 1 January 2018	**8,665**	**16,575**	**5,685**	**30,925**
(Charged)/credited for the year	**(2,160)**	**2,978**	**(976)**	**(158)**
Effect of different tax rate	**(30)**	**(37)**	**(374)**	**(441)**
At 31 December 2018	**6,475**	**19,516**	**4,335**	**30,326**

26. DEFERRED TAX ASSETS *(Continued)*

(b) Deferred tax assets not recognised

As at 31 December 2018, the Group had unused tax losses of approximately RMB53,599,000 (2017: RMB43,072,000), available to offset against future profits. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

	2018 **RMB'000**	2017 RMB'000
2019	**2,243**	2,243
2020	**12,480**	12,480
2021	**16,316**	16,316
2022	**10,254**	10,254
2023	**12,306**	–
	53,599	41,293

At the reporting period end, the Group has accumulated deductible temporary differences of RMB4,041,000 (2017: RMB4,514,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

(c) Deferred tax liabilities not recognised

Under the EIT Law prevailing in the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB313,667,000 (2017: RMB324,280,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

27. CAPITAL AND RESERVES

(a) Share capital

	2018		2017	
	Number of shares '000	Nominal value HK$'000	Number of shares '000	Nominal value HK$'000
Authorised ordinary shares of HK$0.1 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid ordinary share of HK$0.1 each	**311,250**	**31,125**	311,250	31,125
		RMB'000		RMB'000
Presented as		**27,415**		27,415

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

(b) Reserves

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

THE COMPANY	Share premium RMB'000	Merger reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	81,538	219	1,528	257,905	341,190
Recognition of equity-settled share-based payments	–	–	372	–	372
Lapse of share options	–	–	(518)	–	(518)
Loss for the year	–	–	–	(27,233)	(27,233)
Final dividends approved	–	–	–	(5,123)	(5,123)
At 31 December 2017 and 1 January 2018	**81,538**	**219**	**1,382**	**225,549**	**308,688**
Recognition of equity-settled share-based payments	**–**	**–**	**54**	**–**	**54**
Lapse of share options	**–**	**–**	**(236)**	**236**	**–**
Profit for the year	**–**	**–**	**–**	**2,026**	**2,026**
At 31 December 2018	**81,538**	**219**	**1,200**	**227,811**	**310,768**

27. CAPITAL AND RESERVES *(Continued)*

(b) Reserves *(Continued)*

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

(i) Share premium

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

(ii) Merger reserve

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

(iii) Statutory reserves

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

(c) Capital management

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

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

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

27. CAPITAL AND RESERVES *(Continued)*

(c) Capital management *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Debt	**30,725**	483,866
Cash and cash equivalents	**390,523**	237,207
Pledged Deposits	**3,000**	104,240
Net capital/(debt)	**362,798**	(142,419)
Equity	**547,791**	536,440
Net debt to equity ratio	**Not applicable**	(27%)

28. SHARE-BASED PAYMENTS

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

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

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

28. SHARE-BASED PAYMENTS *(Continued)*

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

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

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

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

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

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

28. SHARE-BASED PAYMENTS *(Continued)*

The following tables disclose movements of the Share Options A, Share Options B, Share Options C and Share Options D in 2018 and 2017:

Category	Outstanding as at 1 January 2018	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2018
Share Options A	**300,000**	**–**	**–**	**300,000**
Share Options B	**300,000**	**–**	**–**	**300,000**
Share Options C	**2,200,000**	**(700,000)**	**–**	**1,500,000**
Share Options D	**1,200,000**	**–**	**–**	**1,200,000**
	4,000,000	**(700,000)**	**–**	**3,300,000**
Exercisable share options	**2,640,000**			**3,300,000**
Weighted average exercise price	**HK$1.15**			**HK$1.18**

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

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

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

The Group recognised the total expense of RMB54,000 for the year ended 31 December 2018 (2017: RMB372,000) in relation to the Share Options C and D.

29. OPERATING LEASE COMMITMENTS

The lease payments recognised as an expenses are as follows:

	2018 **RMB'000**	2017 RMB'000
Minimum leases payments paid during the year:		
Premises	**10,196**	11,630

As at 31 December 2018, total future minimum lease payments of the Group under non-cancellable operating leases are fall due as follows:

	2018 **RMB'000**	2017 RMB'000
Rented premises:		
– Within one year	**7,981**	8,650
– In the second to fifth years, inclusive	**2,375**	7,875
	10,356	16,525

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years (2017: one to three years), all terms are renegotiated at the end of each period. None of the leases includes contingent rentals.

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		**243,419**	243,419
Current assets			
Amounts due from subsidiaries		**114,968**	109,503
Bank balances and cash		**242**	232
Total current assets		**115,210**	109,735
Current liabilities			
Other payables and accruals		**438**	645
Amounts due to subsidiaries		**20,008**	16,406
Total current liabilities		**20,446**	17,051
Net current assets		**94,764**	92,684
NET ASSETS		**338,183**	336,103
CAPITAL AND RESERVES			
Share capital	27(a)	**27,415**	27,415
Reserves	27(b)	**310,768**	308,688
TOTAL EQUITY		**338,183**	336,103

On behalf of the directors

Chen Jian
Director

Chen Jing
Director

31. INTERESTS IN SUBSIDIARIES

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

Name of subsidiary	Form of business structure	Place of incorporation/ operation and principal activity	Issued and fully paid up capital/ registered shares	Percentage of ownership interests/voting rights/ profit share	
				2018	2017
Interests held directly					
Futong Technology Co. Ltd.	Corporation	Investment holding in the British Virgin Islands ("**BVI**")	US dollars ("**US$**") 50,000	**100**	100
Interests held indirectly					
Etong Technology Holdings Limited	Corporation	Investment holding in the BVI	US$1	**100**	100
Futong Technology IT Services Co., Ltd.	Corporation	Investment holding in the BVI	US$1	**100**	100
Futong Technology (HK) Company Limited	Corporation	Provision of enterprise IT products in Hong Kong	HK$1,000,000	**100**	100
Futong Technology Development Holdings (HK) Limited (notes (iii))	Corporation	Provision of enterprise IT products in Hong Kong	HK$57,779,100	**81**	81
Futong Cloud Technology (HK) Company Limited	Corporation	Investment holding in Hong Kong	HK$1,000,000	**100**	100
Futong Transcend Technology (HK) Company Limited	Corporation	Investment holding in Hong Kong	HK$1,000,000	**100**	100
北京富通東方科技有限公司 Beijing Futong Dongfang Technology Co., Ltd. (notes (i) and (ii))	Corporation	Provision of enterprise IT products and services in the PRC	RMB100,000,000	**100**	100
富通時代科技有限公司 Futong Times Technology Co., Ltd. (notes (i) and (ii))	Corporation	Provision of enterprise IT products and services in the PRC	RMB100,000,000	**100**	100
北京易通東方科技有限公司 Beijing Etong Dongfang Technology Co., Ltd., (notes (i) and (ii))	Corporation	Provision of enterprise IT products in the PRC	RMB50,000,000	**81**	81

31. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ operation and principal activity	Issued and fully paid up capital/ registered shares	Percentage of ownership interests/voting rights/ profit share 2018	2017
富通雲騰科技有限公司 Futong Cloud Technology Co., Ltd. (notes (i) and (ii))	Corporation	Provision of enterprise IT products and IT services in the PRC	RMB50,000,000	**100**	100
富通騰達科技有限公司 Futong Transcend Technology Co., Ltd. (notes (i) and (ii))	Corporation	Provision of enterprise IT products and IT services in the PRC	RMB50,000,000	**100**	100

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

Notes:

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

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

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

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

32. RELATED PARTY TRANSACTIONS

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

(a) Name and relationship with related parties:

Name of party	Relationships
北京深思軟件股份有限公司 Beijing Deep Thought Software Co., Ltd. (“**Beijing Deep Thought**”) *	A company controlled by Mr. Chen Jian, a director of the Company
Beijing Futong Jinxin	Associate of the Company, which has been disposed of during the year ended 31 December 2018

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

(b) Significant related party transactions

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

	2018 **RMB’000**	2017 RMB’000
Recurring transactions:		
Sales to		
Beijing Futong Jinxin	**–**	2,983
Provision of services to		
Beijing Futong Jinxin	**–**	1,149
Purchases from		
Beijing Futong Jinxin	**2,559**	1,258
Provision of service		
Beijing Deep Thought	**217**	866

32. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

	2018 **RMB'000**	2017 RMB'000
Trade receivables from (note):		
Beijing Futong Jinxin	**–**	618
Trade payables to (note):		
Beijing Futong Jinxin	**(2,559)**	–
Advance payments to suppliers (note):		
Beijing Futong Jinxin	**2,311**	139
Beijing Deep Thought	**–**	111
	2,311	250
Receipts in advance (note):		
Beijing Futong Jinxin	**–**	(650)

Note:

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

(d) Key management personnel remuneration

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

	2018 **RMB'000**	2017 RMB'000
Salaries and allowances	**13,813**	11,507
Contribution to retirement benefits schemes	**1,359**	1,057
	15,172	12,564

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

33. NOTES SUPPORTING STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financial activities:

	Bank and other borrowings (note 25) RMB'000
At 1 January 2018	**483,866**
Changes from cash flows:	
Proceeds from new bank loans	**30,725**
Repayment of bank loans	**(483,866)**
Interest paid	**13,014**
Total changes from financing cash flows	**(440,127)**
Other changes:	
Interest expenses	**(13,014)**
Total other changes	**(13,014)**
At 31 December 2018	**30,725**

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at FVOCI		
Bills receivables	**22,621**	–
Loans and receivables:		
Trade, bills and other receivables	**265,763**	877,667
Contract assets	**19,939**	–
Pledged deposits	**23,349**	138,468
Bank balances and cash	**390,523**	237,207
	722,195	1,253,342
Financial liabilities		
Amortised costs:		
Trade, bills and other payables	**156,412**	447,190
Bank and other borrowings	**30,725**	483,866
	187,137	931,056

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

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Group			
	2018			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at FVOCI				
Bills receivables	**–**	**22,621**	**–**	**22,621**

There were no changes in valuation techniques during the year ended 31 December 2018.

There were no transfers between levels during the year ended 31 December 2018.

35. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to trade, bills and other receivables and contract assets.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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

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

Trade and bills receivables and contract assets

The Group measures loss allowances for trade and bills receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables and contract assets as at 31 December 2018:

	Gross carrying amount RMB'000	**Expected loss rate** %	**Loss allowance** RMB'000
Collective assessment			
Current (not past due)	224,523	0.09%	193
Less than 1 month past due	12,394	0.56%	69
1 to 3 months past due	33,714	1.39%	468
More than 3 Months past due	32,271	7.91%	2,552
	302,902		3,282
Individual assessment	88,256	100%	88,256
	391,158		91,538

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

Trade and bills receivables and contract assets *(Continued)*

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4.13(ii)). At 31 December 2017, trade and bills receivables of RMB62,443,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	613,365
Less than 1 month past due	74,006
1 to 3 months past due	57,856
More than 3 months past due	87,991
	219,853
	833,218

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

Trade and bills receivables and contract assets *(Continued)*

Movement in the loss allowance account in respect of trade and bills receivables and contract assets during the year is as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**62,443**	48,595
Effect of adoption of IFRS 9	**10,006**	–
At beginning of year (restated)	**72,449**	48,595
Impairment losses recognised	**51,763**	14,047
Reversal of impairment loss	**(32,924)**	–
Bad debts written off	**–**	(199)
Exchange alignment	**250**	–
At end of year	**91,538**	62,443

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

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

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

Other receivables and deposits

Other receivables and deposits, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables and deposits.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2018, the Group has available unutilised short-term bank loan facilities of approximately RMB110,275,000 (2017: RMB552,000,000), details of which are set out in note 25.

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

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 31 December 2018					
Non-derivative:					
Trade, bills and other payables	**156,412**	**156,412**	**156,412**	**–**	**–**
Bank and other borrowings					
– Fixed rates	**30,725**	**31,821**	**31,821**	**–**	**–**
	187,137	**188,233**	**188,233**	**–**	**–**
As at 31 December 2017					
Non-derivative:					
Trade, bills and other payables	447,190	447,190	447,190	–	–
Bank and other borrowings					
– Fixed rates	308,666	312,963	312,963	–	–
– Variable rates	175,200	177,267	177,267	–	–
	931,056	937,420	937,420	–	–

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.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and pledged deposits (notes 25 and 22). It is the Group's policy to keep a majority of its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. In order to achieve this result, fixed-rate borrowings raised by the Group are short-term to minimise the fair value interest rate risk.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (note 25). Cash flow interest risk in relation to variable-rate bank balances is considered insignificant. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates published by the People's Bank of China.

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would not be significantly effected as there were no variable rate borrowings as at 31 December 2018 (2017: the post-tax loss would increase/decrease by RMB685,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk

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

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

	2018		2017	
	US$	**HK$**	US$	HK$
	RMB'000	**RMB'000**	RMB'000	RMB'000
Assets				
Cash and cash equivalents	**3,267**	**708**	3,989	838
Trade and bills receivables	**9,714**	**–**	16,378	–
Other receivables	**123**	**379**	3,341	–
Liabilities				
Trade payables	**(9,169)**	**–**	(4,794)	–
Other payables	**(129)**	**–**	(46)	(5,615)
Bank and other borrowings	**–**	**–**	(65,200)	–

Sensitivity analysis

The following table details the Group's sensitivity to a 2% increase and decrease in RMB against USD and 5% against HKD. The % is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. This sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 2% and 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit (2017: a decrease in post-tax loss) where RMB strengthen against foreign currencies. For a weakening situation of RMB against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be negative.

	United States dollar		**Hong Kong dollar**	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**64**	4,697	**45**	324

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

35. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Fair values

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

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

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

Summary of Financial Information

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**1,777,113**	3,662,931	3,441,198	2,558,663	3,101,298
Profit from operations	**37,101**	15,977	59,850	65,098	108,099
Finance costs	**(13,014)**	(45,263)	(33,086)	(39,441)	(57,405)
(Loss)/gain on disposal of interests in associates	**(822)**	–	(647)	94	–
Share of profit/(loss) of associates	**720**	(85)	(1,234)	(1,730)	(3,717)
Profit/(loss) before income tax expense	**23,985**	(29,371)	24,883	24,021	46,977
Income tax expense	**(4,574)**	(10,523)	(8,255)	(715)	(12,852)
Profit/(loss) and total comprehensive income for the year	**19,411**	(39,894)	16,628	23,306	34,125
Profit/(loss) and total comprehensive Income for the year attributable to:					
– Owners of the Company	**19,427**	(39,924)	17,667	23,674	34,363
– Non-controlling interests	**(16)**	30	(1,039)	(368)	(238)
	19,411	(39,894)	16,628	23,306	34,125

	At 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**56,725**	65,539	65,727	78,092	66,275
Net current assets	**491,066**	470,901	515,876	493,655	492,065
NET ASSETS	**547,791**	536,440	581,603	571,747	558,340
Capital and reserves					
Share capital	**27,415**	27,415	27,415	27,415	27,415
Reserves	**515,735**	504,368	549,562	538,667	524,892
Total equity attributable to owners of the Company	**543,150**	531,783	576,977	566,082	552,307
Non-controlling interests	**4,641**	4,657	4,626	5,665	6,033
TOTAL EQUITY	**547,791**	536,440	581,603	571,747	558,340
Earnings/(loss) per share					
– Basic and diluted (RMB)	**0.06**	(0.13)	0.06	0.08	0.11

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian *(Chairman)*
Ms. Chen Jing

Independent Non-executive Directors

Mr. Chow Siu Lui
Mr. Yuan Bo
Mr. Lo Kwok Kwei David *(appointed on 5 February 2018)*
Mr. Yao Yun *(appointed on 25 May 2018)*

COMPANY SECRETARY

Mr. Leung Ka Lung

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

LEGAL ADVISORS

As to Hong Kong law:
Chiu & Partners

As to Cayman Islands law:
Conyers Dill & Pearman

AUDITORS

BDO Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

00465

WEBSITE

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