Cogobuy Group 科通芯城集團

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

2018
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

YE Xin
MA Qiyuan
HAO Chunyi, Charlie

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY SECRETARY

WU Lun Cheung Allen

AUTHORIZED REPRESENTATIVES

KANG Jingwei, Jeffrey
WU Lun Cheung Allen

AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants

LEGAL ADVISORS

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

As to PRC law:
Broad & Bright Law Firm

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

PRINCIPAL BANKERS

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

LISTING INFORMATION

Stock Exchange, Stock Code: 00400

COMPANY WEBSITE

www.cogobuy.com

FINANCIAL HIGHLIGHTS

	Year ended December 31, 2018	December 31, 2017	Year-on-year change
	(RMB in millions, unless specified)		
Revenue	**5,534.8**	9,613.7	(42.4)%
Gross profit	**426.8**	770.2	(44.6)%
Profit for the year	**297.8**	301.3	(1.2)%
Profit attributable to equity shareholders of the Company	**293.2**	302.0	(2.9)%
Earnings per share (“**EPS**”) (RMB per share)			
— basic	**0.201**	0.207	(2.9)%
— diluted	**0.201**	0.206	(2.9)%

CHAIRMAN'S STATEMENT

Since adjusting our business strategy in the fourth quarter of 2017, the Company launched its "AIoT Business Service Platform + IC Component Trading Platform dual business model", and consolidated our business segments into two groups: one which sells integrated circuit ("**IC**") chips and electronic components, and the other focuses on building intelligent hardware and providing IoT enterprise services on INGDAN.com. In 2018, we completed our strategic changes and transformed into an ecosystem company with artificial intelligence ("**AI**") and Internet of Things ("**IoT**") (collectively "**AIoT**") technologies as our core business.

As the 5G era approaches, AIoT has increasingly penetrated various industries, creating higher demand for a wide range of chips, growing the IoT market, and fueling data and intelligent transformation across all industries. According to data from the IDC Research Institute, a renowned market intelligence provider for information technology, telecommunications, and consumer technology markets, global IoT spending's compound annual growth rate is expected to reach 13.6% from 2017 to 2022, and the market is expected to reach US$1.2 trillion by 2022. Gartner, Inc., an S&P 500 global information technology research and consulting firm, also predicts the number of IoT devices worldwide will reach 25 billion in 2021.

The AIoT market presents tremendous business opportunities. Through INGDAN.com's cloud-based architecture, we have also conducted analysis on the accumulated big data from various industries including smart cars, robotics, AI hardware and IoT customized chips, which enables us to provide customers with a one-stop supply chain solution and achieve greater sales growth as a result.

CHAIRMAN'S STATEMENT (CONTINUED)

Cogobuy.com and INGDAN.com platforms collect proprietary, unique data on the demands of our corporate customers, and the data will be the moat of them. INGDAN.com in particular has been focused on supply chain services, providing one-stop solutions for intelligent hardware projects. We have extended our services on IoT innovations and started to provide financing, marketing, sales, and other accelerated services through the platform. By integrating the data from INGDAN.com — which covers technologies and product data from all emerging industries — we are able to explore new business models and application scenarios, and provide targeted recommendations for enterprises, and solutions for various AI applications — including customized chips. By rapidly connecting resources for AIoT industry projects, we have deepened and consolidated our ability to meet the needs of many emerging industries, as well as formed a huge AIoT ecosystem through our long-standing customer base.

To date, the number of companies registered on INGDAN.com's AIoT ecosystem has exceeded 38,000; they include chip companies, AI computing companies, module companies, technical solutions providers, IC components companies, high procurement demand IoT projects, and upgrade projects from traditional electronics manufacturers. The ecosystem covers intelligent security, smart cars, smart homes, robotics, smart healthcare products, cloud services, and new materials.

Over the last year, INGDAN.com implemented three monetization strategies: (i) the sale of smart hardware, such as chips and AI modules, to AIoT enterprises through INGDAN.com to gain sales income; (ii) the provision of customized chip design to gain service income; and (iii) the realization of gains from our equity investments in AIoT technology companies. INGDAN.com successfully incubated EZ Robot, Inc. ("**EZ Robot**") in 2018, a company focusing on AI research, AI hardware production, and robotics applications for various industries. EZ Robot's projects have been widely used in vacuum robots, loading-and-unloading robots, testing robots, food processing equipment, and cleaning service robots.

As for the business of IC components, driven by the arrival of 5G and the development of IoT, the demand for IC components and chips has dramatically increased. As a leading domestic electronic components B2B sales and service providers in China, we have strengthened and enhanced our industry advantages and resources in IC component marketing and sales trading platform.

To date, over 50% of the world's top 100 chip suppliers, including Intel, have established strong partnerships with us. We took the lead on the national IC industry plan, and have developed long term relationships with 60 leading domestic AI chips manufacturers and solutions providers, including Allwinner Technology Co., Ltd., Beijing Unisound Information Technology Co., Ltd., and IFLYTEK CO., LTD. During the year, we also signed an agency agreement with Huawei's Hisilicon Semiconductor Co., Ltd. ("**Hisilicon**"), to promote the application of Hisilicon products in smart home, IoT, and security applications in China.

The Group continues to deepen and consolidate its client relationships across many emerging industries. Smart car is one of the industries that have become a strong future growth engine for the Group. During the year, we have seized the momentum of the smart car market and focused more on smart car hardware and IoT solutions. The Group and Toyota Motors recently jointly established the "Toyota INGDAN.com Innovation Platform". Through the new platform, we hope to cooperate with various upstream suppliers to develop promotional services, sales, and industrial applications for autonomous driving and AI, and further deepen the smart car ecosystem, making smart car the Group's next growth driver .

The Group has also gradually established a presence in the intelligent security and healthcare markets during the year. The Group and Microsoft Cloud jointly launched several intelligent security solutions, and have partnered on Microsoft's Azure platform to help transform traditional security enterprises, including providing cloud-based intelligence for Zhejiang Dahua Technology Co., Ltd., which has the second largest market share in CCTV video surveillance.

Looking forward to 2019, INGDAN.com will remain at the core of the Group's business development, and we expect its contribution to our total revenue to increase. Meanwhile, driven by the development of 5G, all of China's industries are poised for a digital, smart evolution, and the upgrading of equipment and applications will be a massive market for us. With our leading position in chip supplies and the large number of companies already registered on our incubation platform, our IC business and roadmap are set to benefit greatly from the roll out of 5G devices and applications — which will be a huge driver of our growth. Meanwhile, with the recovery of our bank credit lines and the growth of INGDAN.com's customized chip business, we are confident in our business prospects for 2019.

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

KANG Jingwei, Jeffrey
Chairman

Hong Kong, March 28, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Overall business and financial performance of the Group

We are a leading enterprise service platform, dedicated to selling integrated circuits ("**IC**") and related products and providing services to artificial intelligence ("**AI**") and Internet of Things ("**IoT**", together "**AIoT**") sectors. Through our INGDAN.com platform ("**INGDAN.com**") and a direct sales platform, along with a committed team of technical consultants and professional sales representatives, we provide our customers with comprehensive online and offline services across the supply chain, from pre-sale, sale to post-sale stages.

Our "AIoT Business Service Platform + IC Component Trading Platform dual business model" continued to facilitate the Group's business development. This dual business model has taken the form of an AIoT ecosystem through which the Group provides services such as AIoT solutions and electronic component sales for various applications including smart cars, smart homes, smart healthcare, robotics, and customized AIoT chips. The industry transformation riding on 5G created new opportunities for this AIoT ecosystem.

Due to the adjustment of the Group's business structure, reduction in dependence on external funds, and a greater focus on quality to support long-term growth, we recorded a lower revenue during 2018.

In 2018, INGDAN.com realized its three monetization strategies: first, the sale of smart hardware such as chips and AI modules to AIoT enterprises; second, the provision of customized chip designs, proprietary AI modules and AIoT technologies, as well as supply chain finance and other industrial chain services to generate revenue; and third, realization of gain from equity investments into AIoT companies it incubated. The role of INGDAN.com in sustaining our long-term growth in the fast-growing aspects of chip sales has become more prominent.

The arrival and development of 5G and IoT have dramatically increased the demand for IC components and chips. During the Reporting Period, we strengthened our industry advantages, resources in IC component marketing and sales trading platform.

In addition, the auto industry has made a dramatic shift towards smart cars and networking. We prepared for this opportunity by gradually making smart cars one of our key business development areas, and continued to penetrate the smart car market through partnerships with different companies. With the deployment of 5G technologies making the IoT era a reality, various network devices are also experiencing explosive growth, driving increasing demand for AIoT chips. The Group also completed its transition from an IC component sales and marketing platform, to a more diversified, business services, investment, and strategic sales platform serving the electronics industry in China. INDGAN.com's customized chip business has been receiving customer orders in 2018.

A substantial portion of our revenue for the Reporting Period was generated through our traditional business, namely, direct sales of IC and other electronic components. We partnered with over 50% of the world's top 100 chip suppliers, such as Intel, and expanded our cooperation with dozens of first-and second-tier domestic chip suppliers. We source high quality IC and other electronic components from leading suppliers around the world and sell them at competitive prices to both small and medium enterprises and blue-chip electronics manufacturers in China through our direct sales platform and dedicated sales representatives, who work closely with our customers to understand their needs, provide technical consultation and help support their procurement function.

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

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

Well-positioned to offer more value-added services, we commenced our supply chain financing business in September 2014 whereby we earn interest income for providing certain financial services to third-party manufacturers, including provision of working capital financing programs. In December 2016, we extended our supply chain financing business and established a new business unit — IngFin Financing Services. With IngFin Financing Services business, we aim to increase investments in the big-data based enterprise financing business, including loans to third parties for investment initiatives and other enterprise financing services. IngFin Financing Services is a good demonstration to show our strengths to generate new revenue stream by providing additional services based on the Group's existing platform. As of December 31, 2018, the outstanding loan balance of our IngFin Financing Services was RMB542.2 million.

Future prospects

Our goal is to become a leading AIoT ecosystem company with AIoT technology supply chain as the core. Using our "AIoT Business Service Platform + IC Component Trading Platform dual business model", we are dedicated to serving China's growing IoT market. We intend to pursue the following growth strategies to achieve our goal:

I. Capture opportunities on the deployment of 5G technologies

The AIoT markets present tremendous business opportunities. We plan to consolidate INGDAN.com's position as the nation's leading AIoT enterprise service provider, covering all emerging core industries in China, including 5G communication devices, smart cars, smart homes, and security. While 5G devices are currently at a very early development stage, as 5G base stations becoming more extensive and the network built out with increasing coverage, all of China's industries will experience a digital, smart evolution. Upgrades of devices and applications will present tremendous opportunities for us. With our leading position in chip supplies and the large number of companies already registered on our incubation platform, our IC business and roadmap are set to benefit greatly from the market opportunities brought by the roll out of 5G devices and applications.

II. Enhance monetization rate of INGDAN.com platform

We intend to further increase the monetization rate of INGDAN.com by developing it to an important innovation and traditional business upgrade services platform of the AIoT era. INGDAN.com acquires a myriad of customers, demands and data online, and monetizes transactions by supply chain resources and other corporate services offline. This creates synergy that drives a greater contribution by INGDAN.com to the Group in the future. As INGDAN.com commercialization projects have become more sophisticated, especially in AI for industrial robotics and smart cars areas, the platform will contribute significant momentum to the Group's performance. We plan to further enhance the Group's performance through the offer of value-added services, including but not limited to the provision of corporate and technology services and investment services such as incubation programs.

III. Foster the development of an ecosystem serving the electronics manufacturing value chain

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

IV. *Further enhance customer loyalty and increase purchases per customer*

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

V. *Pursue strategic partnerships and acquisition opportunities*

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

For the year ended December 31, 2018, profit of the Group amounted to approximately RMB297.8 million, representing a decrease of approximately RMB3.5 million as compared with approximately RMB301.3 million in 2017. Profit attributable to equity shareholders of the Company amounted to approximately RMB293.2 million, representing a decrease of approximately RMB8.8 million compared with approximately RMB302.0 million in 2017.

Revenue

For the year ended December 31, 2018, revenue of the Group amounted to approximately RMB5,534.8 million, representing a decrease of approximately RMB4,078.9 million or approximately 42.4% as compared with approximately RMB9,613.7 million in 2017. The Group's revenue comprised approximately RMB5,427.8 million of revenue from direct sales, approximately RMB40.8 million of revenue from the Group's marketplace and approximately RMB66.2 million of revenue from IngFin Financing Services. The decrease was primarily due to (i) the Group's business structure adjustment to reduce dependency on bank credit facility for certain IC components business in response to an increase in loan interest rate following a change in US interest rates, and (ii) EZ Robot, Inc. ceasing to be a subsidiary of the Company and its financial results ceasing to be consolidated with the results of the Group following the completion of the exercise of the call option in the second half of 2018.

Cost of revenue

Cost of revenue for the year ended December 31, 2018 was approximately RMB5,108.0 million, representing a decrease of approximately 42.2% from approximately RMB8,843.5 million for the year ended December 31, 2017. The decrease in cost of revenue was due to a decrease in direct sales revenue described under the paragraph headed "Revenue".

Gross profit

Gross profit for the year ended December 31, 2018 was approximately RMB426.8 million, representing a decrease of approximately 44.6% from approximately RMB770.2 million compared with the figures in 2017. The decrease was primarily driven by the results of direct sales revenue and cost of revenue described under the paragraph headed "Cost of revenue".

Other income

For the year ended December 31, 2018, other income of the Group amounted to approximately RMB82.8 million, representing an increase of approximately RMB8.5 million or approximately 11.3% as compared with approximately RMB74.3 million in 2017. This was primarily due to exchange gain, net of RMB53.2 million whilst exchange loss, net was recorded for the corresponding period of 2017. The increase in other income was partly offset by a gain on disposal of available-for-sale investments of RMB37.0 million realized for the first half of 2017 whilst no such gain was recorded in the corresponding period of 2018.

Selling and distribution expenses

Selling and distribution expenses for the year ended December 31, 2018 amounted to approximately RMB111.2 million, representing a decrease of approximately RMB27.0 million or approximately 19.5% from approximately RMB138.2 million in 2017. This was primarily due to a decrease in selling expenses as a result of decreased direct sales revenue and reduced marketing costs as a result of adjustments in marketing strategies, and such decrease was partly offset by additional impairment loss on trade receivables of approximately RMB35.3 million for the year ended December 31, 2018 as compared to approximately RMB21.7 million in the same period of 2017.

Research and development expenses

Research and development expenses for the year ended December 31, 2018 amounted to approximately RMB127.0 million, representing an increase of approximately RMB8.7 million or approximately 7.4% from approximately RMB118.3 million in 2017. This was primarily due to more expenses spent on the research and development of AI products and technologies for IngDan Labs for the year ended December 31, 2018 as compared to the same period of 2017.

Administrative and other operating expenses

During the year, administrative and other operating expenses amounted to approximately RMB98.7 million, representing a decrease of approximately RMB55.8 million or approximately 36.1% from approximately RMB154.5 million in 2017, which was primarily due to a decrease in general administrative costs and employee headcounts.

Income tax

Our income tax decreased by approximately 68.5% from approximately RMB51.6 million for the year ended December 31, 2017 to approximately RMB16.2 million for the year ended December 31, 2018, primarily due to a decrease in profit from operations as a result of decreased revenue and gross profit. The effective tax rate for the year ended December 31, 2018 was 5.2%, as compared to 14.6% for the year ended December 31, 2017. The decrease was mainly due to the non-taxable gain on disposal of subsidiaries amounting to approximately RMB181.8 million for the year ended December 31, 2018.

Profit attributable to equity shareholders of the Company for the Reporting Period

For the year ended December 31, 2018, profit attributable to equity shareholders of the Company amounted to approximately RMB293.2 million, representing a decrease of approximately RMB8.8 million or approximately 2.9% as compared to approximately RMB302.0 million in 2017. The decrease was primarily due to a decrease in profit from operations as a result of decreased revenue and gross profit, and offset partially by a gain on disposal of subsidiaries amounting to approximately RMB181.8 million.

Liquidity and source of funding

As of December 31, 2018, the current assets of the Group amounted to approximately RMB4,891.2 million, which mainly comprised cash and bank balances (including short-term bank deposits and pledged deposits), inventories and trade and other receivables, in the amount of approximately RMB1,317.8 million, approximately RMB860.4 million and approximately RMB1,401.9 million, respectively. Current liabilities of the Group amounted to approximately RMB1,690.8 million, of which approximately RMB1,125.9 million was bank loans and approximately RMB562.6 million was trade and other payables. As of December 31, 2018, the current ratio (the current assets to current liabilities ratio) of the Group was 2.89, representing an increase of approximately 3.2% as compared with 2.80 as of December 31, 2017. The change in the current ratio was primarily due to higher efficiency in cash flow management resulting from improvement in working capital position.

The Group does not have other debt financing obligations as of December 31, 2018 or the date of this annual report and does not have any breaches of financial covenants.

Capital expenditure

For the year ended December 31, 2018, the capital expenditure of the Group amounted to approximately RMB0.2 million, representing a decrease of approximately RMB0.6 million or approximately 75% compared with approximately RMB0.8 million in 2017. The decrease in the capital expenditure was primarily resulted from the plan of tighten budget for purchase of fixed assets for existing operation.

Net gearing ratio

As of December 31, 2018, the net gearing ratio of the Group, which was calculated by dividing net debt (total bank loans minus cash and cash equivalents, short-term bank deposits and pledged deposits) by the sum of net debt and total equity was approximately –4.5% as compared with approximately –31.6% as of December 31, 2017. The increase was primarily due to a decrease in net cash balance as a result repayment of deposits from customers in the first half of 2018.

Material investments

The Group did not make any material investments for the year ended December 31, 2018.

Future plans for material investments and capital assets

As of December 31, 2018, we did not have other plans for material investments and capital assets.

Material acquisitions and disposals

The Group did not have any material acquisitions and disposals for the year ended December 31, 2018.

Pledge of assets

Except for the pledged bank deposits of approximately RMB306.9 million and approximately RMB184.8 million as of December 31, 2018 and December 31, 2017, respectively, the Group did not pledge any assets for the year ended December 31, 2018. The pledged bank deposits were placed as security for credit facilities granted by several banks in Hong Kong.

Contingent liabilities

Neither the Group nor the Company had any significant contingent liabilities as of December 31, 2018. As of December 31, 2018, the Company issued several guarantees to banks in respect of the banking facilities granted to subsidiaries of the Company. The maximum liability of the Company at the end of the Reporting Period under these guarantees issued is the outstanding amount of the bank loans drawn down by the subsidiaries. As of December 31, 2018, management of the Company did not consider it is probable that a claim will be made against the Company under any of the guarantees.

Events after the Reporting Period

There was no other significant events that might affect the Group since the end of the year ended December 31, 2018.

Foreign exchange exposure

Foreign currency transactions during the year ended December 31, 2018 are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling as at December 31, 2018. Exchange gains and losses are recognized as profit or loss.

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

The results of operations with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Consolidated statements of financial position items are translated into RMB at the closing foreign exchange rates as at December 31, 2018. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

REVIEW OF OUR CONSOLIDATED FINANCIAL INFORMATION

We have established an audit committee in compliance with the Corporate Governance Code. The members of the audit committee have discussed with the management of our Company and reviewed the consolidated financial information of our Company for the financial year ended December 31, 2018 set out in this annual report.

DIRECTORS AND SENIOR MANAGEMENT

OUR DIRECTORS

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

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

Name	Age	Position	Date of appointment as Director	Date of joining the Group (including the predecessor entities)
KANG Jingwei, Jeffrey	49	Executive Director, Chairman, and Chief Executive Officer	March 2014	July 2000
WU Lun Cheung Allen	44	Executive Director, Chief Financial Officer and Company Secretary	March 2014	October 2003
NI Hong, Hope	46	Executive Director and Chief Investment Officer	March 2015	September 2010
YE Xin	55	Independent non-executive Director	July 2014	July 2014
MA Qiyuan	62	Independent non-executive Director	June 2017	June 2017
HAO Chunyi, Charlie	59	Independent non-executive Director	February 2018	February 2018

Executive Directors

KANG Jingwei, Jeffrey (康敬偉), aged 49, is the founder and Chairman of our Group, and was appointed as an executive Director of our Company in March 2014. He has been appointed as our Chief Executive Officer since July 18, 2014. Mr. Kang is responsible for the overall strategic planning and business direction of the Group. Mr. Kang is also a director of the following company of the Group:

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

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

WU Lun Cheung Allen (胡麟祥), aged 44, is the Chief Financial Officer and Company Secretary of our Group and was appointed as an Executive Director of our Company in March 2014. Mr. Wu is also a director of the following companies of the Group:

— Silver Ray Group Limited; and

— Cogobuy Worldwide Limited (科通芯城環球有限公司).

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

NI Hong, Hope (倪虹), aged 46, is the Chief Investment Officer of our Group and was appointed as an executive Director of our Company in March 2015. Ms. Ni is responsible for heading the Company's capital market activities and investment initiatives.

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

Previously, Ms. Ni served as a director of ATA Online (Beijing) Education Technology Co., Limited, a company formerly listed on NEEQ (NEEQ: 835079), from July 2015 to August 2018, an independent director of JA Solar Holdings, Co. Ltd., a NASDAQ listed company (NASDAQ: JASO) from August 2009 to July 2018, a director of KongZhong Corporation, a company formerly listed on NASDAQ, from January 2007 to March 2017 and the chief financial officer and director of Viewtran from August 2004 to January 2008 and subsequently served as its vice chairman until early 2009. Prior to joining Viewtran, Ms. Ni spent six years serving as a practicing attorney at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong, specializing in corporate finance. Prior to that, Ms. Ni worked at Merrill Lynch's investment banking division in New York.

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

Independent non-executive Directors

YE Xin (葉忻), aged 55, was appointed as an independent non-executive Director of our Company and a member of the audit, remuneration and nomination committees of our Company since July 18, 2014. Mr. Ye has been the chairman of the nomination committee of our Company since February 13, 2018. Mr. Ye received his bachelor of engineering degree (計算機科學與技術系) from Tsinghua University, China in June 1986, and a master of science degree in Computer Science from Marquette University in Wisconsin, United States in May 1988. From 2003 to 2006, Mr. Ye was the Chief Technology Officer of Linktone, a top wireless entertainment service provider in China. Since 2006, Mr. Ye was the chief executive officer of CASEE Mobile Ads (架勢無線), China's leading mobile advertising network for Android/iPhone applications and mobile content.

MA Qiyuan (馬啟元), PhD, aged 62, was appointed as an independent non-executive Director of our Company and a member of the audit, remuneration and nomination committees of our Company with effect from June 2, 2017. Dr. Ma has been the chairman of the remuneration committee of our Company since February 13, 2018. Dr. Ma is the chairman and chief executive director of Time Medical System Corp., a leading technology innovator in medical imaging and service industry he founded in 2006. Dr. Ma has over 25 years of experience in R&D management in the US. Dr. Ma served as a professor at Columbia University from 1994 to 2000, Associate Professor of Harvard Medical School from 2000 to 2005 and Deputy Director of Magnetic Resonance Engineering Center of the University of Hong Kong from 1998 to 2004. Dr. Ma holds 25 patents and has published more than 200 papers. Dr. Ma is engaged in the field of microelectronic devices, superconducting technology, RF devices, biomedical electronics, and medical imaging.

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

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

HAO Chunyi, Charlie (郝純一), aged 59, was appointed as an independent non-executive Director, the chairman of the audit committee and a member of the remuneration and nomination committees of our Company with effect from February 13, 2018. Mr. Hao has been the chief executive officer and president of Shandong Haizhicheng Energy Engineering Co., Ltd., a pioneer in the research and development in new energy engineering projects, since 2015. Over the years, Mr. Hao has been instrumental in the founding and establishments of several investment funds and companies, including China Fundamental Acquisition Corporation, where Mr. Hao was the chief executive officer from 2008 to 2010, and a member of the board of directors and the president of China of Asia Automotive Acquisition Corporation from 2005 to 2008. Mr. Hao was the chief financial officer of Delphi Automotive Corp (Saginaw Steering System) ("**Delphi**") of General Motors Inc., and oversaw the financials of three joint ventures to Delphi headquarter in Beijing from 1995 to 1999.

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

OUR SENIOR MANAGEMENT

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

Name	Age	Position	Date of appointment as senior management	Date of joining the Group (including the predecessor entities)
LI Feng	53	Senior vice-president	March 2013	August 2010
CHAN Edward	55	Vice-president of operations	January 2014	April 2004
LI Henry	51	Vice-president of business	November 2012	July 2000
WANG Vivia	35	Vice-president	September 2015	September 2015

LI Feng (李峰), aged 53, is the senior vice-president of the Company and is primarily responsible for development of Cogobuy.com, an e-commerce and social media marketing platform. Mr. Li received his bachelor of science degree in computer science from Tsinghua University, China in June 1987, and master of science degree in computer science from Marquette University in Milwaukee, United States in May 1989. Between 1990 and 1999, Mr. Li worked at Informix Software. Between 1999 and 2000, Mr. Li worked for Shanghai Siemens as its chief representative and project director. Between 2002 and 2006, Mr. Li served as the chief operating officer of Viewtran, Inc.

CHAN Edward (陳劍雄), aged 55, is the vice-president of operations of the Company and is primarily responsible for general administrative operations of the Group, including human resources, customer service, logistics and warehousing. Mr. Chan received his bachelor of science degree in mechanical engineering from the University of Hong Kong, Hong Kong in November 1985. Between 1987 and 2002, Mr. Chan worked for and later served as a senior manager of Panasonic Shun Hing Industrial Devices Sales (Hong Kong) Co., Ltd. Between 2004 and February 2013, Mr. Chan was the vice president of operations of Viewtran, and was in charge of the company's customer administration and logistics operations.

LI Henry (李宏輝), aged 51, is the vice-president of business of the Company and is primarily responsible for the overall business and market development of the Group. Mr. Li earned his bachelor of science degree in radio technology, and master of science degree in telecommunication and electronic system from Tianjin University, China in July 1989 and April 1992 respectively. In 1994, Mr. Li focused on teaching and research at Tianjin University. From June 1995 to September 1996, Mr. Li worked at Samsung Electronics Co., where he served as a researcher at ASIC R&D center. Mr. Li was the general manager (Business Unit) of Comtech Communication Technology (Shenzhen) Company Limited from 2002 to 2013.

WANG Vivia (王巍), aged 35, is a vice-president of the Company and is primarily responsible for the Company's investment and financing activities and is the head of IngFin Financing Services business. Ms. Wang received her BBA and MBA degrees from Tsinghua University, China in 2005 and 2007, respectively, and has been a Chartered Financial Analyst (CFA) member since 2012. Ms. Wang has over 10 years of investment banking experience and worked at HSBC's investment banking department as an analyst from 2007 to 2008 and Bank of Communications as assistant relationship manager in 2009. Prior to joining the Company, Ms. Wang was an associate director at CCB International's China Business Division from 2010 to 2015, where she was in charge of eastern China's clients relationship management, sourcing deals for structured finance, IPO bond issuance and PIPE transactions.

REPORT OF THE DIRECTORS

The Directors hereby present the annual report together with the audited consolidated financial statements of the Company and the Group for the year ended December 31, 2018.

CORPORATE INFORMATION

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

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an enterprise service platform, dedicated to selling IC and related products and providing services to the AIoT sectors and serving the electronics manufacturing industry in China. It has adopted the "AIoT Business Service Platform + IC Component Trading Platform dual business model" to facilitate its business development. Through its IC Component Trading Platform, including a direct sales platform and an online marketplace, along with a dedicated team of technical consultants and professional sales representatives, the Group provides customers with comprehensive online and offline services across the supply chain, from pre-sale, sale to post-sale stages. Through its AIoT Business Service Platform, the Group provides IngDan services, which includes a spectrum of enterprise services in the AIoT sector, such as sales and distribution of AIoT products and research and development of AIoT projects, Ingfin Financing Services and incubation of AIoT startup companies. In 2018, the Group fulfilled orders and derived a revenue of approximately RMB5,534.8 million, of which 85.1% was derived from IC Component Trading Platform, and 14.9% from AIoT Business Service Platform. The Group serves electronics manufacturers including SMEs, which it believes represents a lucrative and fast-growing segment of the IC and other electronic components market with a significant demand for its services. A list of the Company's major subsidiaries, together with their places of incorporation and principal activities, is set out in notes 1 and 46 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group during the year ended December 31, 2018 (including analysis of the Group's performance during the year using key performance indicators and discussion of the Group's future business development) is set out in the Chairman's Statement on pages 5 to 7 and Management Discussion and Analysis on pages 8 to 15 of this annual report. A description of the principal risks and uncertainties facing the Company is set out on pages 21 to 23 of this Report of the Directors.

Compliance with the relevant laws and regulations

As far as the Board of Directors and management are aware, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended December 31, 2018, there was no material breach of, or non-compliance, with the applicable laws and regulations by the Group.

Relationship with employees

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

Relationship with suppliers, customers and other stakeholders

The Group understands the importance of maintaining good relationships with its suppliers and customers to meet its immediate and long-term goals. Our customer service team is set up so that they can be easily reached and serves to enhance our relationships with customers. Our procurement and project management teams work closely with our suppliers to maintain reliable and high-quality product offerings. With the expansion of our INGDAN.com platform, the Group strives to provide one-stop supply chain services to all stakeholders in the hardware innovation industry. The Group is committed to upholding the highest ethical and professional standards when dealing with its suppliers and contractors. During the year ended December 31, 2018, there were no material and significant disputes between the Group and its suppliers, customers and other stakeholders.

Environmental policies and performance

The Group is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavors to comply with the applicable environmental laws and regulations and to adopt effective measures to ensure the efficient usage of resources, energy conservation and waste reduction. Such initiatives include the recycling of used papers, the adoption of energy saving measures, the exchange of unsold inventory for new products or credit with major suppliers, the adoption of electronics waste disposal procedures and the donation of old computers to a school in remote area of China. During the year ended December 31, 2018, we had not been subject to any fines or other penalties due to any non-compliance with health, safety or environmental regulations. For details, please refer to the Environmental, Social and Governance Report in this annual report.

CORPORATE GOVERNANCE

Information on the principal corporate governance practices adopted by the Company during the year ended December 31, 2018 is set out in the Corporate Governance Report on pages 46 to 60 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

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

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

DIRECTORS

The Directors during the year ended December 31, 2018 and up to the date of this report were:

Executive Directors:

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

Non-executive Director:

Mr. KIM Jin Ha, Jason *(resigned on February 13, 2018)*

Independent non-executive Directors:

Mr. ZHONG Xiaolin, Forrest *(resigned on February 13, 2018)*
Mr. YE Xin
Dr. MA Qiyuan
Mr. HAO Chunyi, Charlie *(appointed on February 13, 2018)*

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

CHANGES IN INFORMATION OF DIRECTORS

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

Mr. Kang Jingwei, Jeffrey

Mr. Kang has ceased to be a director of Broadband Corporation with effect from November 14, 2018.

Mr. Wu Lun Cheung Allen

Mr. Wu was appointed as a director of Silver Ray Group Limited and Cogobuy Worldwide Limited, each of which is a member of the Group, on June 11, 2018.

Ms. Ni Hong, Hope

Ms. Ni has ceased to be a director of ATA Online (Beijing) Education Technology Co., Limited, a company formerly listed on NEEQ (NEEQ: 835079) an was privatized on October 11, 2017, with effect from August 30, 2018.

Save as mentioned above, there is no other change in the Directors' information required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of publication of the 2018 interim report of the Company.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group are set out in notes 13 and 14 to the consolidated financial statements, respectively. None of the Directors has waived or agreed to waive any emoluments during the year ended December 31, 2018.

DIRECTORS' INTERESTS IN CONTRACTS AND COMPETING BUSINESSES

Save as disclosed in note 38 to the consolidated financial statements headed "Related Party Transactions" and the section headed "Continuing Connected Transactions" of this annual report below, no transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2018.

During the year ended December 31, 2018, none of the Directors nor the Controlling Shareholders of the Company engaged in any business that competed or might compete, either directly or indirectly, with the business of the Group.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries during the year ended December 31, 2018.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at December 31, 2018, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executives are taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; (iii) required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) disclosed according to the knowledge of the Directors of the Company were as follows:

(i) Interests in the Shares of the Company

Name of Director	Nature of interest	Number of Shares[1]	Approximate percentage of shareholding[3]
Mr. Kang	Interest of controlled corporation[2]	700,200,000	47.41%
Mr. Kang	Beneficial owner	1,800,000	0.12%
Mr. Wu	Beneficial owner	1,800,000	0.12%

Notes:

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

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

(3) The percentage is for illustrative purpose only, subject to rounding error, and is calculated based on the number of Shares in issue as at December 31, 2018.

(ii) Interests in any associated corporation of the Company within the meaning of Part XV of the SFO

Name of Director	Name of associated corporation of the Company within the meaning of Part XV of the SFO	Nature of interest	Number of securities interested	Approximate percentage of shareholding
Mr. Kang	Envision Global[2]	Beneficial owner	1 share	100%

Notes:

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

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

Save as disclosed above, as at December 31, 2018, so far as is known to any Director or the chief executive of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including the interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at December 31, 2018, so far as the Directors are aware, the following substantial Shareholders have interests and short positions in the Shares and underlying Shares of the Company, which have been recorded in the register of substantial Shareholders required to be kept by the Company pursuant to section 336 of Part XV of the SFO:

Name	Nature of Interest	Number of Shares[(1)]	Approximate percentage of interest in the Company[(4)]
Envision Global	Beneficial owner	700,200,000	47.41%
Mr. Kang[(2)]	Interest of a controlled corporation	700,200,000	47.41%
Mr. Kang	Beneficial owner	1,800,000	0.12%
Total Dynamic	Beneficial owner	182,888,000	12.38%
Ms. Yao[(3)]	Interest of a controlled corporation	182,888,000	12.38%

Notes:

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

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

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

(4) The percentage is for illustrative purpose only, subject to rounding error, and is calculated based on the number of Shares in issue as at December 31, 2018 (without taking into account the Shares to be issued pursuant to the RSU Scheme).

Save as disclosed above, as at December 31, 2018, the Directors have not been notified by any person who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

PERMITTED INDEMNITY PROVISIONS

During the year ended December 31, 2018 and up to the date of this annual report, the Group has in force indemnity provisions for the benefit of the Directors of the Company or its associated companies. Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles of Association.

REMUNERATION POLICY

As at December 31, 2018, the Group had approximately 497 full-time equivalent employees (2017: 493). Employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications, competence and contribution to the Group.

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee of the Company to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's contributions to the Group, qualification, position and seniority, as well as the Group's performance. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee of the Company. The Company also has an RSU Scheme, of which the Directors, executive officers, senior managers and employees of the Company and its subsidiaries are eligible participants.

The total remuneration cost incurred by the Group for the year ended December 31, 2018 was approximately RMB166.8 million (2017: RMB184.3 million).

RSU SCHEME

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

The grant of the RSUs recognized the contribution of the Scheme Companies' Directors, executive officers, senior managers and employees to the historical achievements of the Company. The Company has the intention to continue exploring ways to incentivise, retain and reward Scheme Companies' Directors, executive officers, senior management and employees and may implement other RSU schemes or other share-based remuneration schemes in the future. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. To satisfy the grant of Shares under the RSU Scheme, 10,200,000 Shares of the Company were issued in aggregate on November 23, 2018.

Details of the movement of the RSUs granted pursuant to the RSU Scheme to the Directors and employees during the year ended December 31, 2018 are set out below:

Name of participants	Date of award	Number of Shares underlying the RSUs granted	Vested as at December 31, 2018	Unvested as at December 31, 2018	Vesting period
Directors					
Mr. Kang	March 1, 2014	1,800,000	1,800,000	—	600,000 Shares in each of 2014, 2015 and 2016 (in quarterly installments)
Mr. Wu	March 1, 2014	1,800,000	1,800,000	—	600,000 Shares in each of 2014, 2015 and 2016 (in quarterly installments)
Other grantees					
Other grantees with a vesting period of three years (1)	March 1, 2014	19,346,300	18,071,300	—	One-third of the entitlement in each of 2014, 2015 and 2016 (in quarterly installments)
Other grantees with a vesting period of one year (2)	March 1, 2014	7,253,700	6,423,200	—	December 31, 2014
Other grantees with a vesting period of three years (3)	July 8, 2015	17,940,000	15,800,000	—	12 quarterly installments (from July 8, 2015 to July 7, 2018)
Other grantees with a vesting period of three years (4)	February 1, 2017	6,000,000	3,260,000	2,200,000	12 quarterly installments (from February 1, 2017 to January 31, 2020)
Other grantees with a vesting period of three years	November 23, 2018	10,200,000	0	10,200,000	12 quarterly installments (from November 23, 2018 to November 22, 2021)

Notes:

(1) As at December 31, 2018, 1,275,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

(2) As at December 31, 2018, 830,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

(3) As at December 31, 2018, 2,140,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

(4) As at December 31, 2018, 540,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

EQUITY-LINKED INVESTMENTS

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

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 84 and 85 of this annual report.

A summary of the published results and assets and liabilities of the Group for the most recent five years are set out on pages 206 and 207 of this annual report. This summary does not form part of the audited financial statements.

CAPITAL STRUCTURE

Details of the capital structure are set out in note 5 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended December 31, 2018 are set out in note 35 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended December 31, 2018 are set out in note 45 to the consolidated financial statements and the consolidated statement of changes in equity on pages 88 to 90 of this annual report. As at December 31, 2018, the Company's reserves available for distribution to the Shareholders were approximately RMB2,083.0 million.

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended December 31, 2018 (2017: nil).

DONATIONS

During the year ended December 31, 2018, the Group did not make any charitable and other donations (2017: nil).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2018 are set out in note 33 to the consolidated financial statements.

PURCHASE, SALES OR REDEMPTION OF OUR COMPANY'S SHARES

During the year ended December 31, 2018, the Company repurchased an aggregate of 4,567,000 Shares (2017: 12,227,000 Shares) on the Stock Exchange at an aggregate consideration of approximately HK$15.7 million (2017: HK$117.8 million) (equivalent to RMB13.8 million (2017: RMB105.5 million)).

Details of the repurchases of Shares during the year ended December 31, 2018 are set out as follows and in note 35 to the consolidated financial statements:

Month of repurchase	No. of Shares repurchased	Highest price paid (HK$)	Lowest price paid (HK$)	Total paid (HK$'000)
March 2018	731,000	4.05	3.99	2,928
April 2018	1,265,000	4.03	3.64	4,959
July 2018	2,340,000	3.19	2.97	7,182
December 2018	231,000	2.63	2.52	599
	4,567,000			15,668

All of the aforesaid repurchased Shares were cancelled, of which 1,265,000 Shares were cancelled on May 21, 2018, 731,000 Shares were cancelled on June 4, 2018, 629,000 Shares were cancelled on August 6, 2018, 1,711,000 Shares were cancelled on August 17, 2018 and 231,000 Shares were cancelled subsequent to the end of the Reporting Period on January 11, 2019.

The repurchase of the Shares during the year ended December 31, 2018 was effected by the Board with a view to benefitting the Company and the Shareholders as a whole by enhancing the net asset value and earnings per Share.

Subsequent to the end of the Reporting Period, the Company has not repurchased any Shares on the Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2018.

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 37 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year ended December 31, 2018 are set out in note 17 to the consolidated financial statements.

PROPERTY HELD FOR DEVELOPMENT, SALE OR INVESTMENT

There is no property held for development, sale or investment for which the percentage ratios (as defined under rule 14.04(9) of the Listing Rules) exceed 5% as at December 31, 2018.

SIGNIFICANT INVESTMENTS HELD

The Company held available-for-sale assets amounted to RMB7.7 million as at the year ended December 31, 2018.

CONNECTED TRANSACTIONS

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

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

On 8 June 2018, Qianhai Cogobuy.com and Shenzhen Comtech entered into a new agency agreement (the "**New Agency Agreement**") and a new service agreement (the "**New Service Agreement**") to renew and regulate such services provided under Agency Agreement and the Service Agreement. The Agency Agreement and the Service Agreement were terminated after the entering into and the effectiveness of the New Agency Agreement and the New Service Agreement, respectively.

Pursuant to the New Agency Agreement, (i) the annual caps set for the service fee payable by Shenzhen Comtech to Qianhai Cogobuy.com for the years ending December 31, 2018, December 31, 2019 and December 31, 2020 shall not exceed RMB10,000,000 (equivalent to approximately HK$12,008,550), RMB12,000,000 (equivalent to approximately HK$14,410,260) and RMB14,400,000 (equivalent to approximately HK$172,920,312), respectively, and (ii) the proposed maximum amount of service fee payable by Shenzhen Comtech to Qianhai Cogobuy.com for the period between January 1, 2021 to June 8, 2021 shall not exceed RMB7,200,000 (equivalent to approximately HK$8,646,156).

Pursuant to the New Service Agreement, (i) the annual caps set for the provision of the certain administrative and consultancy services to Shenzhen Comtech by Qianhai Cogobuy.com for the years ending December 31, 2018, December 31, 2019 and December 31, 2020 shall not exceed RMB2,000,000 (equivalent to approximately HK$2,401,710), RMB2,400,000 (equivalent to approximately HK$2,882,052) and RMB2,880,000 (equivalent to approximately HK$3,458,462), respectively, and (ii) the proposed maximum amount of the provision of the certain administrative and consultancy services to Shenzhen Comtech by Qianhai Cogobuy.com for the period between January 1, 2021 to June 8, 2021 shall not exceed RMB1,440,000 (equivalent to approximately HK$1,729,231).

Mr. Kang Jingwei, Jeffrey is the chairman, chief executive officer and an executive Director of the Company. As at the date of this annual report, Mr. Kang holds approximately 47.53% of the total issued share capital of the Company and is a Controlling Shareholder. Comtech Communication and Shenzhen Comtech are indirect wholly-owned subsidiaries of Envision Global, which in turn is owned by Mr. Kang as to 100%. Comtech Communication and the Shenzhen Comtech are therefore associates of Mr. Kang and connected persons of the Company.

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

For further details of the above agreements, please refer to the Company's announcements dated December 14, 2015, June 8, 2018 and June 25, 2018, and the Company's circular dated January 18, 2016.

CONTINUING CONNECTED TRANSACTIONS

Updates in relation to the Qualification Requirement

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

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

On March 10, 2015, the Guiding Catalogue for Foreign Investment Industries of 2015 (the "**2015 Catalogue**") was promulgated and replaced the 2011 Catalogue after it came into effect on April 10, 2015; and the 2015 Catalogue was eventually replaced by the *Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2018)* (the "**2018 Negative List**"), which became effective on July 28, 2018. Further, on June 19, 2015, the Ministry of Industry and Information Technology ("**MIIT**") promulgated the Circular on Lifting the Restriction on Foreign Shareholding in Online Data Processing and Transaction Processing Services (Operational E-commerce Businesses) (MIIT [2015] No. 196) (the "**196 Circular**"), which came into immediate effect on the date of promulgation. According to the 2015 Catalogue (and the subsequent 2018 Negative List) and the 196 Circular, the restriction on foreign ownership (i.e., not to exceed 50%) has been lifted for e-commerce businesses, which means that foreign-invested companies with 100% foreign ownership are now able to carry out the e-commerce business.

However, even though the 2015 Catalogue (and the subsequent 2018 Negative List) and the 196 Circular have come into force, it is not certain whether the Group can operate the business of Shenzhen Cogobuy without the Contractual Arrangements (as defined below) because the Qualification Requirement remains existent.

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

According to the Information Disclosure System of MIIT, a number of wholly foreign owned enterprises ("**WFOEs")** in the PRC have obtained the EDI Licenses from MIIT since the promulgation of the 196 Circular. Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Group has been gradually building up the track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, and is contemplating to terminate the Contractual Arrangement by transferring all of its value-added telecommunications business in the PRC and assets currently held by Shenzhen Cogobuy to Cogobuy E-commerce or its affiliate, such that Cogobuy E-commerce will be operating the e-commerce platform on its own and applying for an EDI License with MIIT.

The Group operates a website in Hong Kong (the "**Hong Kong Website**") through its Hong Kong operating subsidiary, Cogobuy, and is aiming to provide the relevant PRC authorities with materials demonstrating its track record and experience in providing value-added telecommunications services overseas to prove its satisfaction of the Qualification Requirement in order to apply for the EDI License with MIIT. Cogobuy maintains the Group's cloud service and database, provide services in Hong Kong that support our cogobuy.com e-commerce platform including technical support for overseas users of our e-commerce platform. We believe that such operations help demonstrate our experience in areas related to overseas value-added telecommunications business. In particular, according to the Catalogue of Telecommunications Businesses attached to the Telecommunications Regulations of the PRC, value-added telecommunication services include, among others, online data and transaction handling businesses.

As of December 31, 2018, the Company has no further update to disclose in relation to the Qualification Requirement.

Impact of the process of transferring all of the Group's value-added telecommunications business in the PRC and assets of Shenzhen Cogobuy to Cogobuy E-commerce or its affiliate from Shenzhen Cogobuy

Although a number of WFOEs have obtained EDI Licenses in the PRC since the promulgation of the 196 Circular, in practice, uncertainties still exist as to how long it will take for Cogobuy E-commerce to obtain the EDI License and there is a risk of a possible time gap between the date of completion of the transfer of all of the Group's value-added telecommunications business in the PRC and assets of Shenzhen Cogobuy to Cogobuy E-commerce or its affiliate and the date Cogobuy E-commerce obtains a valid EDI License, such that the Group faces the risk of operating the e-commerce platform in the PRC without an EDI License. Nevertheless, despite the aforementioned risks, our Directors are of the view that this process will not have a material operational or financial impact on the Group since (i) the e-commerce platform can be operated via the Hong Kong Website, which customers can access directly or through online redirection during the aforesaid time gap, (ii) the contribution from the Contractual Arrangements (as defined below) to the Group's revenue and profit is immaterial, and (iii) the assets subject to the Contractual Arrangements (as defined below) constitutes an immaterial part of the Group's total assets. Further details of the revenue, profit and assets subject to the Contractual Arrangements (as defined below) can be found in the paragraph headed "Revenue and profit from, and assets subject to, the Contractual Arrangements" below.

Since all the Group's e-commerce business will be transferred from Shenzhen Cogobuy to Cogobuy E-commerce or its affiliates, and the Group will cause Cogobuy E-commerce to apply for a new EDI License with MIIT, we are of the view that the lapse of the current EDI License held by Shenzhen Cogobuy will be no longer relevant to the Group's e-commerce business or the operation of Cogobuy E-commerce, except for the risks during the time gap mentioned in the preceding paragraph (which can be mitigated by the Hong Kong website as stated above).

Contractual Arrangements

Reasons for the Contractual Arrangements

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

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

Risks relating to the Contractual Arrangements

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

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

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

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

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

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

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

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

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

Mitigation actions taken by the Company

Our management works closely with Ms. Yao and our external legal counsels and advisors to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements. In the event that we fail to obtain the EDI License and are required to close down the relevant operations, our Directors are of the view that this would not have a material adverse impact on our business operations in light of the immaterial revenue and profit contribution from the Contractual Arrangements and the assets subject to the Contractual Arrangements constitute an immaterial part of the Group's total assets. Further details of the revenue, profit and assets subject to the Contractual Arrangements can be found in the paragraph headed "Revenue and profit from, and assets subject to, the Contractual Arrangements" below.

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

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

Contractual Arrangements

During the year ended December 31, 2018, the Group engaged in the following Contractual Arrangements.

1. *Master Exclusive Service Agreement*

Nature and purpose of the agreement

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

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

Pricing

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

Term of the agreement

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

2. *Business Cooperation Agreement*

Nature and purpose of the agreement

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

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

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

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

Term of the agreement

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

3. *Exclusive Option Agreement*

Nature and purpose of the agreement

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

Term of the agreement

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

4. *Share Pledge Agreement*

Nature and purpose of the agreement

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

Term of the agreement

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

5. *Proxy Agreement and Power of Attorney*

Nature and purpose of the agreement

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

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

Term of the agreement

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

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced by the Group with Shenzhen Cogobuy and Ms. Yao during the year ended December 31, 2018. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2018.

For the year ended December 31, 2018, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the structured contracts under the Contractual Arrangements has been removed.

As at the date of this annual report, (i) Ms. Yao holds approximately 12.38% of the total issued share capital of the Company, and (ii) Shenzhen Cogobuy is wholly-owned by Ms. Yao, and is therefore an associate of Ms. Yao and a connected person of the Company. Accordingly, each of the Master Exclusive Service Agreement and the Exclusive Option Agreement, which is entered into between Cogobuy E-commerce, an indirect wholly-owned subsidiary of the Company, and Shenzhen Cogobuy, and each of the Business Cooperation Agreement, the Share Pledge Agreement, the Proxy Agreement and Power of Attorney entered into among Shenzhen Cogobuy, Ms. Yao, and Cogobuy E-commerce, constitute continuing connected transactions of the Company.

Revenue and assets subject to the Contractual Arrangements

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

	Year ended December 31, 2018 RMB'000	Year ended December 31, 2017 RMB'000
Revenue	28,892	37,187
Profit for the year	4,821	16,630

	As at December 31, 2018 RMB'000	As at December 31, 2017 RMB'000
Total assets	96,352	91,510

For the year ended December 31, 2018, the revenue and profit for the year of Shenzhen Cogobuy amounted to approximately 0.5% (2017: 0.4%) and 1.6% (2017: 5.5%) of the revenue and profit for the year of the Group respectively.

As at December 31, 2018, the total assets of Shenzhen Cogobuy amounted to approximately 1.6% (2017: 1.7%) of the total assets of the Group.

Waiver from the Stock Exchange and annual review

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

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

Our independent non-executive Directors reviewed the Contractual Arrangements and confirmed that: (i) the transactions carried out during the year ended December 31, 2018 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by Shenzhen Cogobuy has been substantially retained by Cogobuy E-commerce; (ii) no dividends or other distributions have been made by Shenzhen Cogobuy to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) no new contracts have been entered into, renewed or reproduced between our Group and Shenzhen Cogobuy during the year ended December 31, 2018.

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

(a) nothing has come to their attention that causes SHINEWING HK (CPA) Limited to believe that the disclosed continuing connected transactions under the section headed "Continuing Connected Transactions" of this annual report, have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes SHINEWING HK (CPA) Limited to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to their attention that causes SHINEWING HK (CPA) Limited to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the continuing connected transactions under the section headed "Continuing Connected Transactions" of this annual report, nothing has come to their attention that causes SHINEWING HK (CPA) Limited to believe that such continuing transactions have exceeded the annual cap as set by the Company.

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended December 31, 2018 has been provided by the Company to the Stock Exchange.

During the year ended December 31, 2018, save as disclosed in the sections headed "Connected Transactions" and "Continuing Connected Transactions" of this annual report, no other related party transactions disclosed in note 38 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the Reporting Period as disclosed in the sections headed "Connected Transactions" and "Continuing Connected Transactions" of this annual report.

MANAGEMENT CONTRACTS

No contracts, concerning the management and administration of the whole or any substantial part of the business of the Company, except for contract of service with any Director or any employment contract, were entered into or existed for the year ended December 31, 2018.

CUSTOMERS AND SUPPLIERS

Our customers primarily consist of electronics manufacturers based in China. One of our customers accounted for more than 10% of our revenue for the year ended December 31, 2018 (2017: 1). For the Reporting Period, the aggregate sales attributable to the Group's five largest customers were approximately 32.2% of the Group's total sales, and the sales attributable to the Group's largest customer were approximately 20.1% of the Group's total sales. None of our Directors, their respective associates, or close associates, or any Shareholder, to the knowledge of our Directors, owns more than 5% of our issued capital or has any interest in any of our largest customer.

As of December 31, 2018, we had a strong network of approximately 128 suppliers, including some of the top suppliers in key product categories, such as Intel for cloud/data center, Microsoft for cloud service and AIoT, Xilinx for industrial, medical, communication, crypto-currency and test and measurement, Skyworks for 5G communications, SanDisk for smart mobile device components, OSRAM for automotive lighting, Micron for data center, and Microchip for industrial and AIoT. For the Reporting Period, our five largest suppliers in aggregate accounted for approximately 58.1% of the Group's total purchases and our largest supplier accounted for approximately 27.4% of the Group's total purchases. None of our Directors, their respective associates and close associates, or any Shareholder, to the knowledge of our Directors, owns more than 5% of our issued capital or has any interest in any of our five largest suppliers.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

LITIGATION

As of December 31, 2018, the Company was not involved in any material litigation or arbitration. Nor were the Directors of the Company aware of any material litigation or claims that were pending or threatened against the Company.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Company's issue of new Shares in its initial public offering (after deducting expenses relating specifically to the issue of new Shares in the initial public offering and expenses relating generally to the listing of all the Shares of the Company, whether existing or new, included underwriting fee of approximately RMB49,466,000) amounted to approximately HK$1,313,168,000 (equivalent to approximately RMB1,046,070,000). As at December 31, 2018, the net proceeds from the initial public offering had been fully utilized as follows:

	Planned amount per Prospectus	Amount utilized up to June 30, 2018	Amount utilized up to December 31, June 30, 2018	Balances as at December 31, 2018
		(RMB in millions, unless specified)		
Expanding our marketing and promotion activities	366.1	—	—	—
Expanding and enhancing of our e-commerce platform, investing in our technology infrastructure, as well as for conducting other research and development activities	313.8	313.8	—	—
Funding potential acquisitions of, or investments in, technologies and complementary online business, partnerships and licensing opportunities	261.5	—	—	—
Working capital and other general corporate purposes	104.6	—	—	—

AUDIT COMMITTEE

The audit committee has reviewed together with the management and the external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2018.

AUDITOR

The consolidated financial statements for the year ended December 31, 2018 have been audited by SHINEWING (HK) CPA Limited ("**SHINEWING**"), who has been appointed with effect from December 15, 2017. The Company had engaged KPMG as its auditor between 2014 and 2017 until KPMG resigned as the auditor of the Company with effect from December 15, 2017.

A resolution for the re-appointment of SHINEWING as the Company's auditor is to be proposed at the forthcoming annual general meeting of the Company.

UPDATES ON NON-COMPLIANCE MATTERS

Certain lease agreements we entered into with respective PRC landlords outside of Shenzhen City had not been registered with the relevant government authorities due to the non-cooperation of the relevant landlords. Under relevant PRC laws and regulations, the relevant governmental authority may ask the parties to a lease to register the lease within a given period, and a fine ranging between RMB1,000 to RMB10,000 may be imposed on the parties to a lease for failing to rectify within the given period. During the period between the Listing Date and December 31, 2018, we had not been ordered by any authorities to register the lease agreements within a given period. In addition, the fine which may potentially be imposed as a result of the failure to register the relevant leases would be immaterial.

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

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

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

On behalf of the Board

Kang Jingwei, Jeffrey
Chairman

Hong Kong, March 28, 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of Directors is pleased to report to the Shareholders on the corporate governance of the Company for the year ended December 31, 2018.

The Board of Directors is committed to achieving good corporate governance standards.

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

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

The Board is of the view that throughout the year ended December 31, 2018, the Company has complied with all of the code provisions as set out in the CG Code, save and except for the deviation from code provisions A.1.1 and A.2.1 as explained below:

Deviation from code provision A.1.1:

Code provision A.1.1 requires that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication. During the year ended December 31, 2018, only three regular Board meetings were held to review and discuss the 2017 annual and 2018 interim results, and consider and discuss the important matters and overall financial performance of the Group. However, the Directors, who were provided with supporting explanatory materials, as supplemented by additional verbal and/or written information from the company secretary or senior management of the Company as and when required, passed several written resolutions to approve routine and operational matters of the Company during the Reporting Period. The Company will make appropriate arrangements to hold at least four regular Board meetings during the year ending 2019.

Deviation from code provision A.2.1:

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Kang Jingwei, Jeffrey currently performs these two roles. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Securities Dealing Code throughout the year ended December 31, 2018.

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

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The Board during the year ended December 31, 2018 and up to the date of this annual report is:

Name of Director	Membership of Board Committee(s)
Executive Directors	
Mr. Kang Jingwei, Jeffrey *(Chief Executive Officer and Chairman of the Board)*	
Mr. Wu Lun Cheung Allen *(Chief Financial Officer and Company Secretary)*	
Ms. Ni Hong *(Chief Investment Officer)*	
Non-executive Director	
Mr. Kim Jin Ha, Jason (resigned on February 13, 2018)	

Name of Director	Membership of Board Committee(s)
Independent non-executive Directors	
Mr. Ye Xin	Chairman of the Nomination Committee
	Member of the Remuneration Committee
	Member of the Audit Committee
Dr. Ma Qiyuan	Chairman of the Remuneration Committee
	Member of the Nomination Committee
	Member of the Audit Committee
Mr. Hao Chunyi, Charlie (appointed on February 13, 2018)	Chairman of the Audit Committee
	Member of the Remuneration Committee
	Member of the Nomination Committee
Mr. Zhong Xiaolin, Forrest (resigned on February 13, 2018)	Chairman of the Audit Committee*
	Chairman of the Remuneration Committee*
	Chairman of the Nomination Committee*

* Prior to Mr. Zhong Xiaolin, Forrest's resignation on February 13, 2018

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 16 to 19 of this annual report.

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

Independent non-executive Directors

Throughout the year ended December 31, 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. Currently, each independent non-executive Director was appointed for a specific term of three years commencing on the date of his appointment letter or until the third annual general meeting of the Company since the date his appointment letter (whichever is sooner), subject to retirement by rotation in accordance with the Listing Rules and the Articles of Association.

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

Appointment and re-election of Directors

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

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

Mr. Kang Jingwei, Jeffrey and Mr. Wu Lun Cheung Allen will retire and be eligible for re-election at the forthcoming annual general meeting in accordance with the Articles of Association.

Responsibilities, accountabilities and contributions of the Board and management

The Board is responsible for leadership and control of the Company, oversees the Group's businesses, strategic decisions and performance, ensures that sound internal control and risk management systems are in place and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board of Directors takes decisions objectively in the interests of the Company.

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

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

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

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

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

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Continuous professional development of Directors

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

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

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

During the year ended December 31, 2018, the Directors have attended seminars and training sessions arranged by professional/financial institutions, and have read relevant materials relating to regulatory updates. The relevant details are set out below:

	Training areas		
Name of Directors	Corporate governance	Legal and regulatory	Business
Executive Directors			
Kang Jingwei, Jeffrey	✓	✓	✓
Wu Lun Cheung Allen	✓	✓	✓
Ni Hong, Hope	✓	✓	✓
Non-executive Director			
Kim Jin Ha, Jason[(1)]	✓	✓	✓
Independent non-executive Directors			
Zhong Xiaolin, Forrest[(1)]	✓	✓	✓
Ye Xin	✓	✓	✓
Ma Qiyuan	✓	✓	✓
Hao Chunyi, Charlie[(2)]	✓	✓	✓

Notes:

(1) resigned on February 13, 2018

(2) appointed on February 13, 2018

BOARD COMMITTEES

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

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

Audit Committee

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

During the year ended December 31, 2018, the audit committee held three meetings to review/discuss/consider the interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, re-appointment of external auditor and relevant scope of works, connected transactions, 2018 full year audit plan, financial control, whistleblowing policy, the amendments of the terms of reference of the audit committee and recommendation of the adoption of a dividend policy.

During the year ended December 31, 2018, the terms of reference of the audit committee have been revised, under which the cooling-off period for a former partner of the Company's existing auditing firm to act as a member of the audit committee has been amended to align with the relevant requirements under the Listing Rules.

The audit committee also met the external auditor twice without the presence of the executive Directors for the year ended December 31, 2018.

Remuneration Committee

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

During the year ended December 31, 2018, the remuneration committee met once to review and make recommendations to the Board on (i) the policy and structure for the remuneration of all Directors and senior management of the Company, (ii) the remuneration packages of all the Directors and senior management, and (iii) grant of RSUs under the RSU Scheme.

Details of the remuneration of the senior management by band are set out in note 14 in the "Notes to the Consolidated Financial Statements" on page 151 of this annual report.

Nomination Committee

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

In assessing the Board composition, the nomination committee would take into account various aspects set out in the board diversity policy of the Company, further details of which are set out in the section headed "Board Diversity Policy" below, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The nomination committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

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

During the year ended December 31, 2018, the nomination committee met once to review/discuss/consider the structure, size and composition of the Board, the independence of the independent non-executive Directors and the board diversity policy, the adoption of a director nomination policy and the qualifications of the retiring Directors standing for election at the annual general meeting and other related matters.

Board Diversity Policy

The Company adopted a board diversity policy (the "**Board Diversity Policy**") on June 27, 2014, which was revised on December 14, 2018 to cope with the change of the CG Code. The Board Diversity Policy aims to set out the approach on the diversity of the Board and a sustainable and balanced development. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the nomination committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. The nomination committee will also discuss periodically and where necessary, agree on the measurable objectives for achieving diversity of the Board and recommend them to the Board for consideration and adoption.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and industry and regional experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board may adopt and/or amend from time to time (as applicable) such diversity perspectives, measurable objectives and relevant programs that are appropriate to the Company's business and Board succession planning, as applicable.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the nomination committee of the Company.

The Company adopted a director nomination policy (the "**Director Nomination Policy**") on December 14, 2018. The Director Nomination Policy aims to set out the selection criteria and process in the nomination and appointment of Directors, ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company, and ensure the continuity of the Board and appropriate leadership at Board level.

The nomination committee of the Company shall make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer of the Company.

The factors that the nomination committee of the Company may use assessing the suitability and the potential contribution to the Board of a proposed candidate include but are not limited to the following:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience;
- diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules;
- commitment in respect of available time and relevant contribution to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and the succession planning and where applicable, may be adopted and/or amended by the Board and/or the nomination committee from time to time for nomination of Directors and the succession planning.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The nomination committee of the Company will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy, and where appropriate, make recommendations on changes to the Board for consideration and approval to complement the Company's corporate strategy and business needs to ensure its effectiveness.

Corporate governance functions

The Board recognizes that corporate governance should be the collective responsibility of Directors. The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

During the year ended December 31, 2018, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended December 31, 2018 is set out in the table below:

	Attendance/Number of meetings				
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	General meetings
Kang Jingwei, Jeffrey	3/3	N/A	N/A	N/A	1/1
Wu Lun Cheung Allen	3/3	N/A	N/A	N/A	1/1
Ni Hong, Hope	3/3	N/A	N/A	N/A	1/1
Ye Xin	3/3	1/1	1/1	3/3	1/1
Ma Qiyuan	3/3	1/1	1/1	3/3	1/1
Hao Chunyi, Charlie(1)	3/3	1/1	1/1	3/3	1/1
KIM Jin Ha, Jason(2)	N/A(3)	N/A(3)	N/A(3)	N/A(3)	N/A(3)
ZHONG Xiaolin, Forrest(2)	N/A(3)	N/A(3)	N/A(3)	N/A(3)	N/A(3)

Notes:

(1) appointed on February 13, 2018

(2) resigned on February 13, 2018

(3) No meeting of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee, and no general meetings were held on or prior to February 13, 2018 during the Reporting Period.

Apart from regular Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the Reporting Period.

PRACTICES AND CONDUCT OF MEETINGS

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management as and when they deemed appropriate.

The Company Secretary records all matters considered by the Board, decisions reached and any concerns raised or dissenting views expressed by the Directors. Minutes of all Board meetings and committee meetings are kept by the Company Secretary with copies circulated to all Directors for information and records.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2018.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 77 to 83 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the audit committee of the Company.

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

All departments continuously assess and identify risks and internal control defects that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Any risks indentified shall be reported to the management, which will direct the internal audit department to develop or refine policies and procedures to address such risks. Any material internal control defects identified shall be reported to the management and the audit committee, which will provide directions for management to resolve and remedy such internal control defects and direct the internal audit department to develop or refine policies and procedures to address such risk.

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

The management has provided a confirmation to the Board on the effectiveness of the risk management and internal control systems for the year ended December 31, 2018.

SHINEWING HK (CPA) Limited, the Company's external auditor, has considered the internal control of the Group for the year ended December 31, 2018 in accordance with Hong Kong Standards on Auditing and reported to the Audit Committee during their regular meeting on March 28, 2019.

During the year ended December 31, 2018, the internal audit function of the Group was performed by the Company's internal audit department, which is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the audit committee.

The Board, as supported by the audit committee of the Company as well as the management report and internal audit findings, has conducted a review on the risk management and internal control systems of the Company and its subsidiaries for the year ended December 31, 2018. Such review covered the areas of financial, operational, compliance control and risk management of the Group. The Board considered that such systems to be effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Group has also adopted an information disclosure policy which sets out comprehensive guidelines in respect of handling and dissemination of inside information. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy.

Dividend Policy

The dividend policy was adopted by the Company pursuant to the Board meeting held on December 14, 2018 (the "**Dividend Policy**"). The Dividend Policy sets out the factors in determination of dividend payment of the Company, the frequency and form of dividend payments. The Dividend Policy will be reviewed periodically and submitted to the Board for approval if amendments are required. The Company does not have any pre-determined dividend payout ratio and intends to retain most, if not all, of available funds and any future earnings to operate and expand the business of the Company. The Dividend Policy outlines the following factors of the Group that the Board should take into account in determining the distribution and the amount of any future dividends:

- results of operations;
- cash flow;
- capital requirements;
- general financial condition;
- contractual restrictions;
- future prospects; and
- other factors that the Board deem relevant.

Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Companies Law, including the approval of the Shareholders and that dividends can only be paid out of profits or other distributable reserves. The future dividend payments to the Shareholders will also depend upon the availability of dividends received from the Company's subsidiaries that are incorporated in the PRC. Depending on the financial conditions of the Group and the conditions and factors as set out above, interim dividend, final dividend, special dividend, and any distribution of net profits that the Board may deem appropriate may be proposed and/or declared by the Board during the financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

Whistleblowing policy

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

Information disclosure policy

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

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

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company, SHINEWING (HK) CPA Limited, and its affiliated firm, for the year ended December 31, 2018 in respect of audit and non-audit services is set out below:

Services provided	Fees (HK$)
Audit services	3,600,000
Non-audit services (Note)	2,220,000
Total	5,820,000

Note: Apart from the provision of annual audit services, SHINEWING (HK) CPA Limited also provided review services on interim financial results of the Group for the six months ended June 30, 2018 and its affiliated firm provided internal control review services of the Group for the year ended December 31, 2018.

COMPANY SECRETARY

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

The Company Secretary has confirmed that he has taken no less than 15 hours of professional training to update his skills and knowledge for the year ended December 31, 2018 in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

Procedures for Shareholders to put forward enquiries to the Board

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

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

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

Procedures for Shareholders to convene an extraordinary general meeting

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

Procedures for Shareholders to put forward proposals at general meeting

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2018, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR COMMITMENT AND APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The board of directors (the "Board") of Cogobuy Group ("Cogobuy" or the "Company") and its subsidiaries (collectively "we", "us", "ours", or the "Group") recognizes the importance of Environmental, Social and Governance ("ESG") in meeting the changing expectations of stakeholders while enhancing the value and performance of the Group. Hence the Board, working together with the management, has made the commitment to take on the overall responsibility of assessing and identifying risks associated with ESG matters of the Group, in a mission to promote the environmental and socially sustainable culture among all our employees to maintain sustainable growth for the Group.

Using a top-down approach, we assimilate ESG concepts into our daily operations at the workplace through the Group's policies and guidelines, so that each of our employees becomes ambassador of the sustainability efforts, thus ensuring that the scope of our ESG efforts is sufficiently broad to cover the significant parts of our businesses.

REPORTING STANDARD, PERIOD AND SCOPE

This report ("ESG Report") has been prepared in accordance with to the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The ESG Report describes the progress of the ESG efforts made by the Group during the year 31 December 2018 (the "Reporting Period"). The scope of the ESG Report covers the core operations in People's Republic of China ("China" or "PRC") and the management office in Hong Kong.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The Company values its stakeholders and endeavours to understand and accommodate their views and interests relating ESG through constructive communication and the fostering of strong relationships. The Company, while formulating operational strategies, takes into account the stakeholders' expectations on ESG matters through their mutual cooperation and active engagement, in doing so together we create greater value not only for our business, but also for our environment, our employees and our community.

The stakeholder groups, their expectations and their typical communication channels with the Group are tabled below:

Stakeholder groups	Expectations	Typical communication channels
Customers	• Information quality • Collection of users' information and information protection • Information completeness and correctness • Intellectual property rights • Innovation and update of information	• Company tours • Collection of complaints and feedback • Online survey • Regular communication via email or telephone • User's experience programmes • Product testing, reviews and feature reports • Online chat rooms or forums • Interest clubs • Financial reports, announcements and circulars and other publicly available information
Suppliers	• Good business relationship • Fair and honest dealing • Information sharing	• Regular communication via email or telephone • Regular progress meetings or reports
Shareholders and investors	• Return on investment • Information disclosure and transparency • Protect the rights and interests of shareholders • Disclose relevant and accurate information in a timely manner • Improve corporate governance • Run business in compliance with laws and regulations • Combat corruption and uphold integrity	• Shareholders' meetings and annual general meetings, etc. • Financial reports, announcements and circulars and other publicly available information • Company enquiries via e-mail and phone • Information disclosure of listed companies • Roadshows/conference calls/ meetings with investors/ shareholders • Enquiries via telephone/emails • Investors' on-site visit • Website information disclosure on HKEXnews website (http://www.hknews.hk) ("HKEXnews") and the Investor Relations section of the Company's website (http://www.cogobuy.com/investment/financial.html) ("Company's IR website")

Stakeholder groups	Expectations	Typical communication channels
Employees	• Training and career development space • Salary and welfare • Working environment • Health and safety protection • Career development and opportunities • Innovation • Intellectual property rights • Competitiveness	• Team sharing • Mentoring by direct supervisor • Employee notice boards • Training, seminars and workshops • Employee orientation • Employee memorandum • Collection of feedback, through emails and face-to-face meetings • Employee activities and team-building exercises • Company's facilities
Local communities, non-government organisations and the general public	• Employment opportunities • Ecological environment • Community development • Social common wealth • Enthusiasm towards public welfare • Charitable donations • Reduce pollutant emissions • Waste reduction	• Charitable activities • Community investment and service • Stakeholder engagement • Environmental protection activities • Sponsorships and donations
Media	• Transparency of information • Good media relations	• Website information disclosure on HKEXnews and the Company's IR website • Financial reports, announcements and circulars and other publicly available information

During the Reporting Period, the Company has been assessed in accordance with the ESG aspects as set out in the ESG Reporting Guide. The list of material issues which are material to the Group are shown in the table below:

ESG Aspects		Material ESG issues for the Group
(A)	*Environmental*	
A1	Emissions	Electricity consumption
A2	Use of Resources	Use of energy and paper
A3	Environment and Natural Resources	Air pollution
(B)	*Social*	
B1	Employment	Labour practices
B2	Health and Safety	Workplace health and safety
B3	Development and Training	Employee development and training
B4	Labour Standards	Anti-child and forced labour
B5	Supply Chain Management	Supply chain management
B6	Product Responsibility	Product responsibility
B7	Anti-corruption	Anti-corruption, fraud prevention and anti-money laundering
B8	Community Investment	Community programs, employee volunteering and donation

Details of our work under these ESG aspects during the Reporting Period will be presented in the next sections in four subject areas, namely “Our Environment”, “Our Employees”, “Our Business” and “Our Community”.

OUR ENVIRONMENT

The Company is aware of the risk associated with climate change and the importance of the efforts in managing these risks in the global community. It has been our mission to conduct our business in a manner that is environmentally responsible, minimising the impact to the environment from our business operations however small it may be.

During the Reporting Period, the Group has complied with relevant environmental laws and regulations in Hong Kong and PRC. The Group has not received report or complaint of any significant breaches of environmental laws and regulations during the Reporting Period (2017: Nil). These relevant laws and regulations include:

- Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong);
- Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong);
- Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong);
- Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong);
- Environmental Protection Law of the People’s Republic of China (中華人民共和國環境保護法);
- Water Pollution Prevention and Control Law of the People’s Republic of China (中華人民共和國水污染防治法);
- Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法);
- Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法).

The ESG performances of the Group with regards to emissions and waste, use of resources, and environment and natural resources will be detailed in the next sections.

Aspect A1: Emissions and Wastes

Direct air emissions were primarily attributed to the use of the Group's motor vehicles during the Reporting Period. The amounts of the different types of direct air emissions emitted during the Reporting Period by the Group were as follows:

(Units: kilograms)		2018		2017	
Direct air emissions	Air emission Source(s)	Total emissions	Intensities[1]	Total emissions	Intensities[1]
Nitrogen Oxides ("NOx")	Group vehicles	12.42	0.02	13.71	0.03
Sulphur Oxides ("SOx")		0.33	<0.01	0.39	<0.01
Particulate Matter ("PM")		0.91	<0.01	1.01	<0.01

Note:

(1) Intensity is measured by dividing the relevant emissions by the number of employees as at the end of Reporting Period.

The amount of different types of Green House Gases ("GHG") emissions in CO_2 equivalent emissions ("CO_2e") during the Reporting Period was as follows:

(Units: Tonnes of CO_2e)		2018		2017 [2]	
Scope of GHG emissions	Emission source(s)	Total emissions	Intensities[1]	Total emissions	Intensities[1]
Scope 1					
Direct GHG Emissions	Group vehicles	61.64	0.12	71.84	0.15
Scope 2					
Energy Indirect GHG Emissions	Purchased electricity	289.58	0.58	230.05	0.47
Scope 3					
Other Indirect GHG Emissions	Business air travel & paper disposals	149.46	0.30	178.63	0.36
Total		500.68	1.01	480.51	1.00

Notes:

(1) Intensity is measured by dividing the relevant emissions by the number of employees as at the end of Reporting Period.

(2) Certain amounts in the previous year have been restated to improve comparability with the amounts in the current year.

As shown in the results above, the air and GHG emissions of the Group during the Reporting Period remained fairly consistent to that in the previous year. Electricity consumption was a major source of GHG emission during the Reporting Period, which was generated indirectly through our use of electricity purchased through national grid. The overall level of emissions remained low which is consistent to the emission levels of businesses in a similar nature.

During the Reporting Period we produced no hazardous waste and there was no discharge into water and land (2017: Nil). And similar to previous year, in the interest of cost-effectiveness, data were not collected for the insignificant small amount of non-hazardous wastes that were collected at the offices, primarily waste paper, office supplies, and domestic waste such as food stuffs, etc.

Despite the fact that our business activities have a low impact on the environment, the Group has implemented various environmental protection measures to manage emissions and waste production as described in the later section headed "Environmental Protection Measures".

Aspect A2: Use of Resources

The amount of consumption by types of energy or resources during the Reporting Period were as follows:

		2018		2017 [2]	
Energy or resources	**Units**	**2018**	**Intensities[1]**	2017	Intensities[1]
Electricity	kWh	**333,774.94**	**671.58**	265,151.17	537.83
Water	Tonnes	**2,759.74**	**5.55**	3,863.17	7.84
Paper	Kilograms	**1,695.00**	**3.41**	3,262.50	6.62
Petrol	Litres	**22,762.22**	**45.80**	26,528.82	53.81

Notes:

(1) Intensity is measured by dividing the relevant emissions by the number of employees as at year end.

(2) Certain amounts in the previous year have been restated to improve comparability with the amounts in the current year.

There was no issue in sourcing water that is fit for purpose. Our water usage during the Reporting Period has decreased compared to the same period last year, an indication that our water efficiency initiatives to reduce water usage has been achieved. We are merely a trading platform, hence we do not use packaging in the course of our business. Despite our efforts to decrease energy use, there is an increase of electricity usage year-on-year.

Our major use of energy was from electricity purchased from national grid utilised in our offices, consumed in the use of electrical appliances, general lighting, office equipment, computer desktop and servers, etc. The next major use of energy was petrol which was used to fuel the Group vehicle for the purpose of business travel.

Energy and resource conservation are essential parts of the Company ESG strategy which will be detailed in the later section titled "Environmental Protection Measures".

Aspect A3: Environment and Natural Resources

Our business operation does not involve the use of natural resources, and hence there was very little adverse impact on the environment in this aspect during the Reporting Period. Nonetheless, as will be outlined in the next section, we are committed to environmental protection and have adopted and implemented various measures to reduce the negative impact on its environment and habitat.

Environmental protection measures

The Company has the following measures which are regularly carried out to achieve its ESG strategy in the course of our operations:

- Policies and procedures are regularly updated as necessary to incorporate rules and guidelines on environmental protection in order raise employee awareness on the importance of protecting the environment and to assimilate them into their daily workflows;

- Through the implementation of these rules and guidelines, the Company encourages the management and employees to minimise the Group's environmental impact by:

  i. Reducing excessive printing by going paperless as far as possible;

  ii. Use of telephone or video conferencing for internal meeting and internal communications to reduce business travel thus reduce indirect GHG emissions;

  iii. Reusing printed paper wherever possible, subject to the personal data privacy requirements;

  iv. Thinking twice before printing any email, and the message "Please think green before printing" is attached to the bottom of every email sent to remind the recipient to do the same;

  v. Investigate and explore additional means to enhance the energy efficiency of electrical appliances, such as air-conditioning, lighting and electrical installations, and other office equipment in working areas, wherever possible;

  vi. Provide and promote the use of green facilities such as waste separation bins wherever possible;

  vii. Reusing or recycling packaging such as plastic or paper bag, and paper cartons;

  viii. Closely monitor consumption volume of energy, water and other resources;

  ix. Follow established policies and procedures for disposal of electronic and computer waste, engaging with authorized e-waste collection or computer recycling service for recycling when necessary;

  x. Provides suitable facilities wherever possible and encourages employees to sort and recycle waste products wherever possible;

- Water-efficient sensor taps are installed wherever possible to avoid unnecessary water wastage; and

- The workplace is maintained at a comfortable ambient room temperature, so as to conserve energy use and reduce unnecessary indirect GHG emissions due to excessive use of purchased electricity.

OUR EMPLOYEES

The Company values its employees and is committed to providing them with a fair and equitable workplace environment. In this section we detailed the various policies and practices adopted by the Group with regards to employment, health and safety, development and training, and labour standards.

Aspect B1: Employment

The Group's employee handbook has standard policies and procedures to deal with recruitment, employment, working hours and rest periods, performance review, compensation, salary adjustments and promotions, and termination of employment. These policies describe the Group's commitment to equal opportunity, which ensures that the organisation maintains a diverse workforce without regard to age, gender, family status, sexual orientation, disability, ethnicity, religion and political beliefs. These policies also prohibit all forms of discrimination in the workplace. Through these policies, the Company endeavours to ensure employees are fairly recruited, remunerated and promoted based on their merits, qualifications, competence, suitability and contribution to the Group. These policies also ensure that employees at all levels are expected to conduct in an ethical manner, with integrity, impartiality and honesty.

The Company is committed to full compliance with laws and regulations relating to the employment of labour. There was no significant breach of labour laws and regulations during the Reporting Period (2017: nil). These relevant labour laws and regulations include:

- The Employment Ordinance (Chapter 57 of the Laws of Hong Kong);

- The Sex Discrimination Ordinance (Chapter 480 of the Laws of Hong Kong);

- The Disability Discrimination Ordinance (Chapter 487 of the Laws of Hong Kong);

- The Family Status Discrimination Ordinance (Chapter 527 of the Laws of Hong Kong);

- The Race Discrimination Ordinance (Chapter 602 of the Laws of Hong Kong);

- The Labour Law of Peoples' of Republic of China (中華人民共和國勞動法);

- The Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法);

- The Employment Promotion Law of the People's Republic of China (中華人民共和國就業促進法);

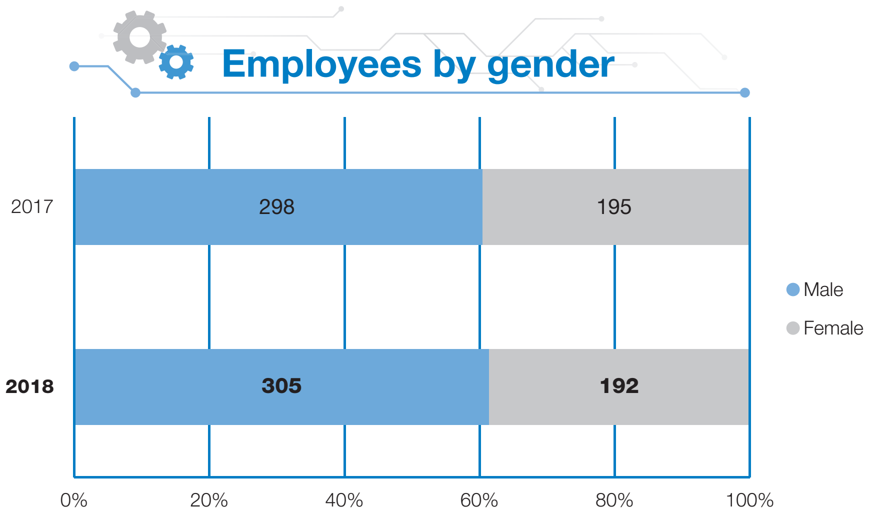
- Protection of Women's Rights and Interests Law of the People's Republic of China (中華人民共和國婦女權利保障法); and

- Law of the People's Republic of China on the Protection of Disabled Persons (中華人民共和國殘疾人保障法).

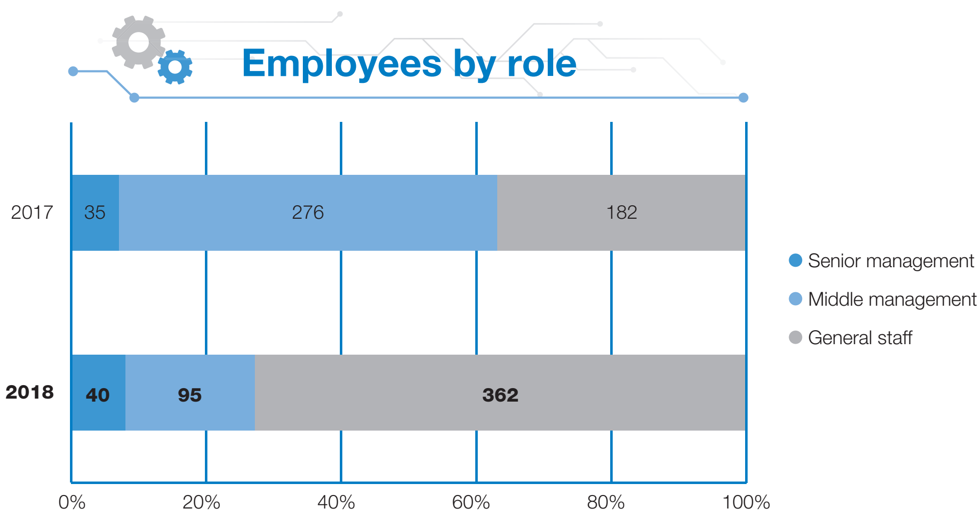
The Company encourages the employees at all levels to conduct themselves in an ethical manner with integrity, impartiality and honesty.

Workforce

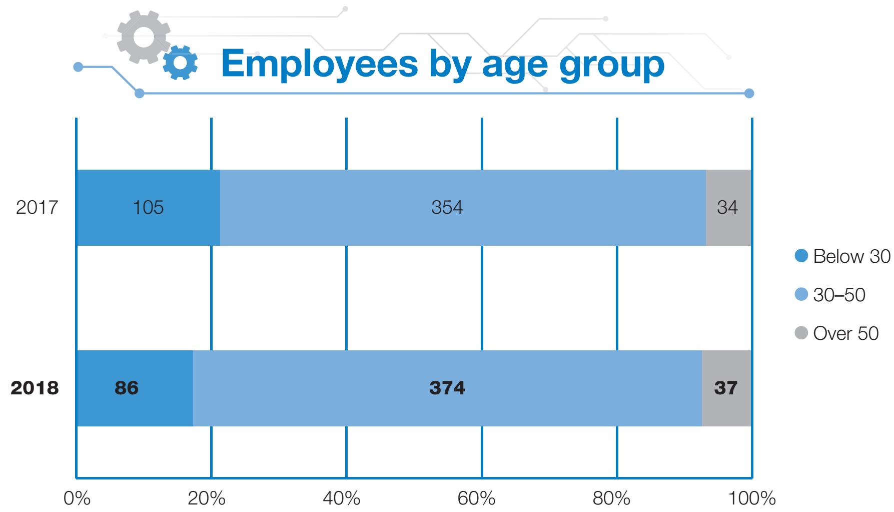
As at the end of Reporting Period, the Group had 497 employees in total (2017: 493). 32 employees worked as part-time (2017: 20), while rest of our employees worked as full-time.



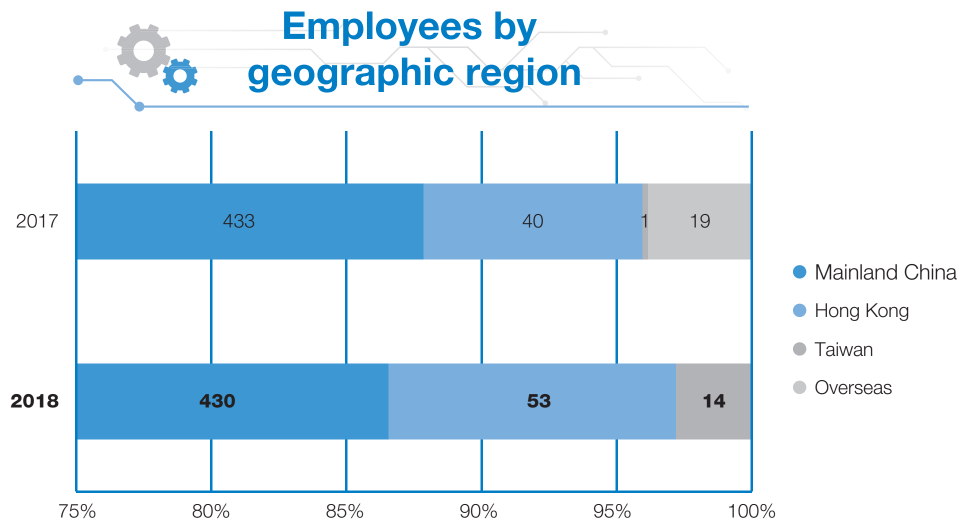
The ratio of male employees is slightly higher than female, at a male-to-female ratio of 1.59 (2017: 1.53).



19% of the employees (2017: 56%) worked in middle management roles, while 73% of the employees (2017: 37%) worked as general staff. The remaining 8% of the employees (2017: 7%) were in the senior management roles.



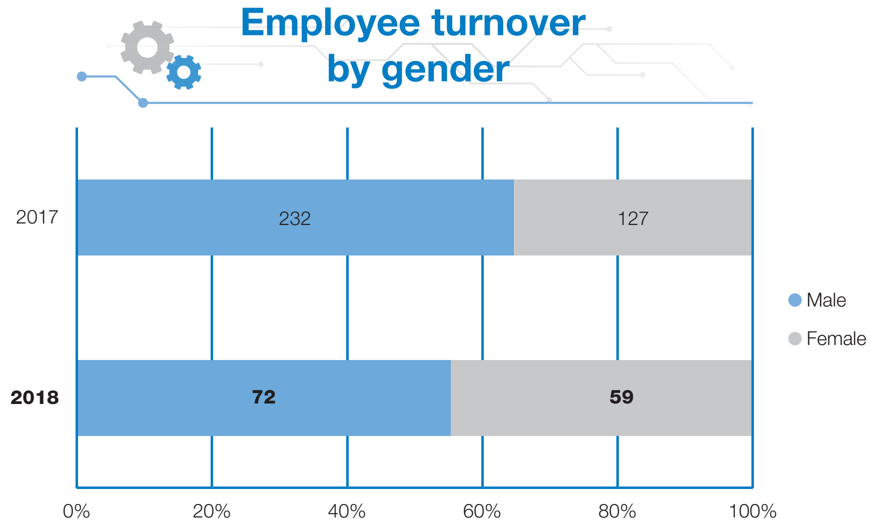
At the end of Reporting Period, the majority of the employees 75% (2017: 72%) were aged between 30 and 50, while 17.3% (2017: 21%) of the workforce was under the age of 30, and the remaining 7% (2017: 7%) were aged above 50.

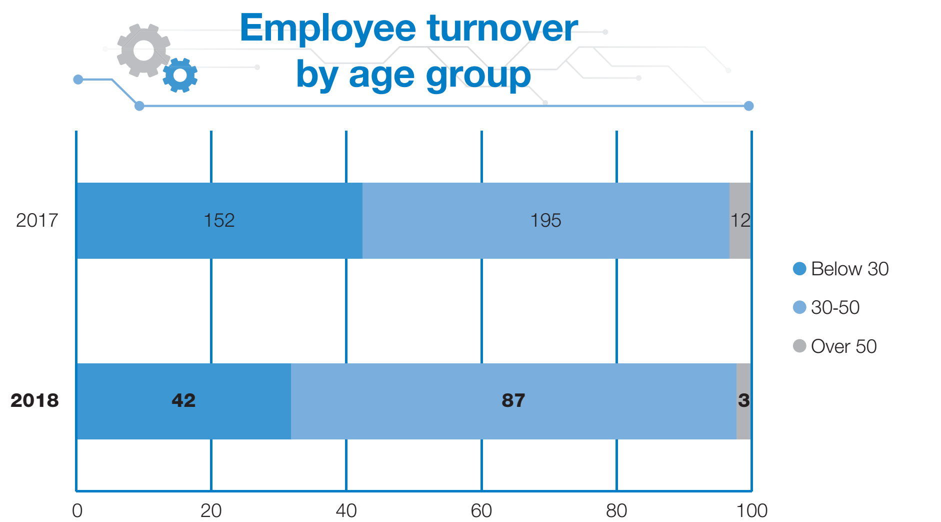


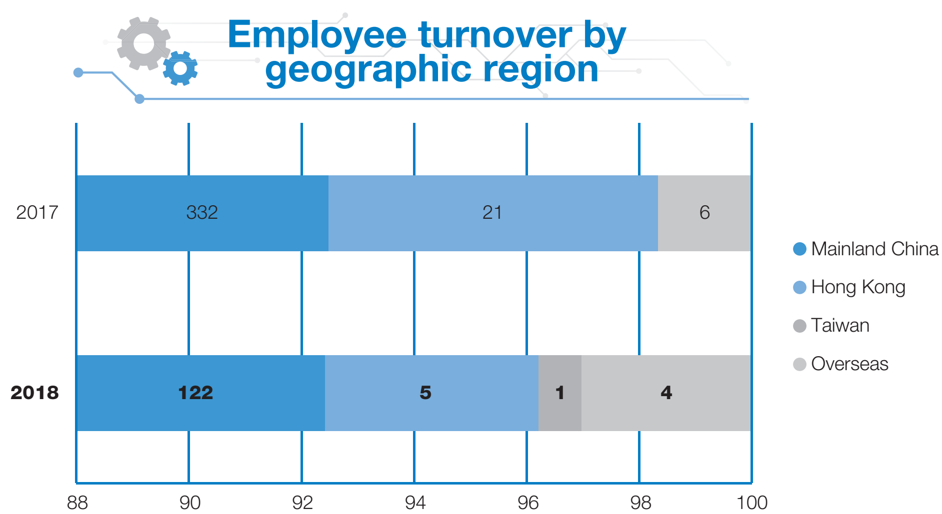
Since the Group is headquartered in China, 430 employees (2017: 433), representing the vast majority of its workforce, worked at the offices in China during the Reporting Period. The Group also employed 53 employees (2017: 40) to manage business operations in Hong Kong and 14 employees (2017: 19) employed overseas as at the end of Reporting Period.

Employee retention

In the Reporting Period, a total of 132 employees left the Group (2017: 359).







The Group has implemented an annual self-appraisal programme to provide incentives as a motivation for employee to attain periodic goals. Employees who are able to reach specific goals are rewarded by the Company with the adoption of the Restricted Share Unit (RSU) scheme. The Group provides internal transfer opportunities for those who have demonstrated their competency for the next level.

Aspect B2: Health and Safety

Our employees are mainly office-based thus risk to physical health and safety is not a significant concern for the Company. Nonetheless the Company is committed to, and has engaged in significant efforts, in providing and maintaining a safe and healthy working environment to mitigate any occupational or health risks in our employees, and for the compliance of relevant laws and regulations. These significant efforts include proper management of fire safety equipment in the office, regular fire drills, as well as providing sufficient medical insurance as stipulate in PRC labour laws.

In addition to complying with laws and regulations related to the employment of labour as previously mentioned, the Company is also committed to the compliance of laws and regulations related to occupational health and safety including:

- The Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong); and
- Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法).

Occupational health and safety principles are stipulated in the staff handbook to give guidance and promote awareness to staff to mitigate these risks. Social and commercial insurance covers are provided to employees for medical treatment in case of accident resulting in injury. Any injuries occurring during work are required to be reported to the Human Resources Department. There was no significant work-related injury and no fatality recorded during the Reporting Period (2017: nil).

Aspect B3: Development and Training

The Company recognizes the importance of the continuity and development of professional knowledge and skills, and has established a policy in relation to staff development and training, which applies to all staff of the Group and stipulates how training are planned and executed, how it can be improved. It also describes the types of training, i.e. off-the-job training, on-the-job training and self-development, and how these different types of training compliments one another in this company training structure.

The Group provides training opportunities for various levels of employees, including the management, sales and marketing, operations and back office supporting staff. These include internal trainings as well as external training sessions such as domestic and overseas inspection tours, mid-career study, compliance-related training such as anti-money laundering and counter-financing of terrorism ("AMLCFT"), and job-related seminars which are conducted by professional training organizations, colleges or consulting companies.

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

During the Reporting Period, there was a total of 3,547 training headcounts (2017: 5,236) and a total of approximately 4,698 training hours (2017: 7,906) was completed by our employees which took place in the PRC. An analysis of these trainings by gender and by role is shown below:

	2018			2017		
	Number of employees*	Total training hours	Average training hours	Number of employees*	Total training hours	Average training hours
By gender						
Male	305	3,580	11.7	298	6,013	20.2
Female	192	1,118	5.8	195	1,893	9.7
Total	497	4,698	9.5	493	7,906	16.0
By role						
Senior management	40	384	9.6	35	194	5.5
Middle management	95	979	10.3	276	2,435	8.8
General staff	362	3,335	9.2	182	5,277	29.0
Total	497	4,698	9.5	493	7,906	16.0

* as at the end of Reporting Period

Aspect B4: Labour Standards

It is the Company's policy that child and forced labour are unacceptable and are actively prevented with a comprehensive screening and recruiting process. Based on the requirements set out in the relevant labour laws, we arrange reasonable work schedule with employees to ensure they have sufficient rest and work-life balance. Our employees are also entitled to where appropriate, compensation for overtime, entitlement of leave or other employee benefits in accordance with the relevant labour laws of the jurisdiction in which they are employed.

In addition to compliance with laws and regulations related to the employment of labour as previously mentioned, the Group is also committed to the compliance of laws and regulations related to labour conditions and standards as well as to preventing child and forced labour, including:

- The Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong);
- The Employment of Children Regulations under the Employment Ordinance (Cap. 57B of the Laws of Hong Kong);
- Provisions on the Prohibition of Child Labour in the People's Republic of China (禁止使用童工規定); and
- The Employment Ordinance (Cap. 57 of the Laws of Hong Kong).

OUR BUSINESS

The core businesses of the Group are the direct sales of integrated circuits and other components on its e-commerce platform in the PRC.

Aspect B5: Supply Chain Management

Cogobuy has maintained good practices to build up positive relationships with its suppliers. Since 2017, the Company has utilized its own platform www.ingdan.com (硬蛋) and has followed the trend of Internet of Things ("IoT") industry. It has developed an open, collaborative and prosperous e-commerce ecosystem to benefit the business operation of its customer and suppliers and it has developed tools to establish trust ratings for suppliers, thereby facilitating the process of selecting potential trading partners.

As part of the Group's supplier management process, it has established and implemented a policy to ensure the standard of goods and services supplied to us and our customers. We welcome qualified, competent, high-quality and socially responsible suppliers to work with us. We maintain an authorised suppliers list through an approval process. The performances of these suppliers are evaluated at regular intervals to ensure better control of the quality of the goods and/or services to the Group. The vast majority of our approved suppliers were from China, while a small number of them were based in Hong Kong or overseas. Most of the suppliers with whom the Group is currently cooperating are world-leading product/service providers whose practices are in alignment with their social responsibilities and long-term sustainability of the environment. They are committed to business ethics while maintaining high standards in the conservation of environmental resources and the well-being of their employees.

Aspect B6: Product Responsibility

Cogobuy provides an e-commerce platform for corporate procurement of electronic components which are manufactured by third party manufacturers who bear the product responsibility of these products.

However in the interest of our reputation, as discussed in the previous section headed "Supply Chain Management", we ensure good relationship and quality with our product suppliers through our suppliers' management process. All approved suppliers are required to honour the exchange of sub-standard products with customers. In addition, they are required to affix labels on all packages to clearly state that the products have complied with applicable worldwide environmental regulations and requirement standards, for instance the European Union's Restriction on Use of Hazardous Substances (RoHS), Lead-free, Halogen-free, etc.

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

In order to ensure compliance with laws and regulations regarding the information we provide on our e-commerce platform, we regularly checks its contents to ensure illicit messages such as violence, pornography, hatred, superstition, gambling, etc. does not appear on our sites. The Company is committed to complying with laws and regulations of the People's Republic of China, including:

- The E-Commerce Law of the People's Republic of China (中華人民共和國電子商務法);
- The Cyber Security Law of the People's Republic of China (中華人民共和國網絡安全法);
- the Administrative Measures on Internet Publishing Services (網絡出版服務管理規定) issued jointly by the State Administration of Press, Publication, Radio, Film and Television ("SARFT") and the Ministry of Industry and Information Technology ("MIIT");
- Administrative Measures for Internet Information Services (互聯網信息服務管理辦法);
- The Interim Administrative Provisions on Internet Culture (互聯網文化管理暫行規定) promulgated by the Ministry of Culture;
- The Administrative Provisions on Internet Audio-Visual Program Service (互聯網視聽節目服務管理規定);
- Advertising Law of the People's Republic of China (中華人民共和國廣告法);
- The Law of the People's Republic of China on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法);
- The Decision on Strengthening the Protection of Online Information (關於加強網絡信息保護的決定); and
- The Order for the Protection of Telecommunication and Internet User Personal Information (電信和互聯網用戶個人信息保護的決定).

In the Reporting Period, the Group received no significant complaints from stakeholders (2017: nil).

Aspect B7: Anti-corruption

The Company has established various anti-corruption policies to ensure that the Company adheres to the highest ethical standards and maintains a corporate culture of integrity and fairness to prevent, detect and report all types of corruption (i.e. including bribery, extortion, money-laundering or fraud). These policies include a whistle-blowing policy which allows employees to discreetly report any actual or suspected corrupt activities to the Company's audit committee or the company secretary by email; an AMLCFT policy in place together with relevant training in order to fulfill our regulatory obligations and to prevent AMLCFT crimes.

The Company's disclosure policy requires our employees to report gifts, entertainment and travel acceptance while conducting business on behalf of the Group. Employees are required to manage such gifts and entertainment provided by business associates according to relevant guidelines. The staff handbook stipulates that the Group has the right to terminate the employment of those employees who have received money, gifts or rebates as bribes, and that the Group reserves the right to take further legal action.

The Company complies with major laws and regulations relevant to anti-corruption practices including:

- Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong);
- Anti-Money Laundering and Counter-Terrorist Financing (Cap. 615 of the Laws of Hong Kong);
- The Criminal Law of the People's Republic of China (中華人民共和國刑法); and
- Anti-Money Laundering Law of the People's Republic of China (中華人民共和國反洗錢法).

During the Reporting Period, the Group was not in breach of any relevant laws and regulations in the matter related to corruption (2017: nil).

OUR COMMUNITY

Aspect B8: Community Investment

As a socially responsible enterprise, the Group strives to become a positive force in the communities where it operates, and maintaining close communication and interaction with the local communities and contribute to the development of these communities. The Company also encourages our employees to participate voluntarily in various local community activities and events. The Group may also make donations as appropriate subject to, amongst others, sufficiency of funds and the identification of a suitable recipient charity.

信永中和 ShineWing

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

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

OPINION

We have audited the consolidated financial statements of Cogobuy Group (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 84 to 205, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Loss allowances on loans to third parties

Refer to note 25 to the consolidated financial statements and the accounting policies on page 114.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group's loans to third parties, amounting to approximately RMB542,182,000, represented loans granted to customers under the supply chain financing services, namely Ingfin Financing Services ("Ingfin Financing Services") as at 31 December 2018. Since the year ended 31 December 2018, the management has adopted expected credit losses ("ECL") model to estimate the loss allowance of loans to third parties under HKFRS 9. We identified the loss allowances on loans to third parties as a key audit matter as the amounts are significant to the consolidated financial statements as a whole and there is significant degree of management judgement involved in assessing the ECL model, based on the historical credit loss experience, forward-looking factors specific to the debtors and economic environment.	Our audit procedures were designed to review the management's assessment of ECL model adopted for the loss allowance on loans to third parties. We have obtained an understanding of methodology for ECL model, development processes and its relevant controls, through review of documentation, discussion with management and valuer. We have also assessed the reasonableness of assumptions and judgements made by management on model adoption and parameters selection. We have examined the key data inputs to the ECL model on a sample basis to assess their accuracy and completeness.

Loss allowance on trade receivables

Refer to note 24 to the consolidated financial statements and the accounting policies on page 114.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group's trade receivables are amounting to approximately RMB1,246,794,000, net of loss allowance of approximately RMB147,159,000. Since the year ended 31 December 2018, the management has adopted ECL model to estimate the loss allowance of trade receivables under HKFRS 9. We identified the loss allowance on trade receivables as a key audit matter as the amounts are significant to the consolidated financial statements as a whole and there is significant degree of management judgement involved in assessing the ECL model, based on the historical credit loss experience, forward-looking factors specific to the debtors and economic environment.	Our audit procedures were designed to review the management's assessment of ECL model adopted for the loss allowance on trade receivables. We have obtained an understanding of methodology for ECL model, development processes and its relevant controls, through review of documentation, discussion with management and valuer. We have also assessed the reasonableness of assumptions and judgements made by management on model adoption and parameters selection, including the internal credit rating assessed by the management. We have examined the key data inputs to the ECL model on a sample basis to assess their accuracy and completeness.

Valuation of inventories

Refer to note 23 to the consolidated financial statements and the accounting policies on page 111.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the carrying amount of inventories is approximately RMB860,361,000, net of allowance for inventories of approximately RMB26,742,000. We identified the valuation of inventories as a key audit matter due to the use of judgments in identifying obsolete and slow moving inventories and determining the net realisable value ("NRV") which are based on conditions and the marketability of the inventories.	Our audit procedures were designed to evaluate management's assessment of the conditions and the marketability of the obsolete and slow moving inventories and identify any valuation risk of inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluating the condition and marketability of the inventories adopted by the management. We have performed testing on the aging analysis of the inventories, on a sample basis, to the source documents. We have tested the subsequent sales, on a sample basis, to source documents. We have also assessed the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sample basis.

Valuation and impairment assessment on intangible assets and goodwill

Refer to notes 18, 19 and 41 to the consolidated financial statements and the accounting policies on pages 102, 103 and 111.

The key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2018, the Group acquired 100% equity interest in Risingnovas Holdings Limited ("Risingnovas") and its subsidiary, (collectively referred to as "Risingnovas Group") for approximately RMB74,737,000, 51% equity interest in New United Holdings Limited ("New United") and its subsidiary (collectively referred to as "New United Group") for approximately RMB173,950,000 and 53% equity interest in Heicolink Holdings Limited ("Heicolink") and its subsidiaries (collectively referred to as "Heicolink Group") for approximately RMB186,087,000. Pursuant to HKFRS 3 *Business Combinations*, the purchase price is required to be allocated between the acquired assets and liabilities, resulting in the recognition of intangible assets and goodwill or recognition of gain on bargain purchase. This requires a significant amount of judgement in the Purchase Price Allocation Exercise ("PPA"), particularly in relation to the valuation of the customer relationships, supplier relationships and non-compete agreements that the acquisitions possess and the assessment of the fair value of the acquired assets and liabilities at acquisition date and the recognition of the related goodwill or intangible asset from the acquisitions. As at 31 December 2018, the Group had intangible assets and goodwill amounting to approximately RMB451,246,000 and RMB451,492,000 respectively allocated to four cash-generating units. The management performed impairment testing on the intangible assets and goodwill annually based on the value-in-use calculation of the cash-generating units. We have identified the valuation and impairment assessment of intangible assets and goodwill as a key audit matter because of the involvement of a significant degree of judgments and estimates made by the management when performing impairment testing.	Our audit procedures were designed to review the management's assessment, estimation and judgement applied in the identification and valuation of goodwill and intangible assets arisen from these acquisitions and the value-in-use calculation. We have discussed with management on the purchase price allocation, including identification and valuation of the intangible assets and goodwill. We also challenged the reasonableness of the key assumptions of the PPA exercise, such as the discount rates and estimates of future cash flows. Based on our procedures, we noted that the purchase price allocation has been performed in accordance with HKFRS 3, including the disclosures thereon, intangible assets and goodwill identified are appropriate and within expectations for the industry. We also noted management' s key assumptions applied in the purchase price allocation in arriving at the fair value of the assets acquired and liabilities assumed, including the fair value of intangible assets, to be within a reasonable range of our audit expectations. We have assessed the impairment testing performed by the management. We tested the profit forecasts and cash flow projections on whether they were agreed to the budgets approved by the directors of the Company and compared with actual results available up to the report date. We also challenged the appropriateness of the management judgments and estimates used in the profit forecasts and cash flow projections, including the forecasted sales and gross profit margins, against latest available information. We also challenged the discount rate adopted in the value-in-use calculation by reviewing its basis of calculation and comparing the input data to market sources.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hong Kong
28 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	**5,534,829**	9,613,696
Cost of sales		**(5,108,042)**	(8,843,461)
Gross profit		**426,787**	770,235
Other income	9	**82,776**	74,342
Selling and distribution expenses		**(111,180)**	(138,174)
Research and development expenses		**(126,979)**	(118,269)
Administrative and other operating expenses		**(98,679)**	(154,500)
Finance costs	10	**(47,749)**	(109,131)
Gain on disposal of subsidiaries	42, 43	**181,787**	26,493
Share of results of associates		**7,306**	2,872
Share of result of a joint venture		**(44)**	(956)
Profit before taxation		**314,025**	352,912
Income tax expenses	11	**(16,239)**	(51,609)
Profit for the year	12	**297,786**	301,303
Profit for the year attributable to:			
Owners of the Company		**293,179**	302,025
Non-controlling interests		**4,607**	(722)
		297,786	301,303

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

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements from function currency to presentation currency		**131,905**	(144,235)
Net change in fair value of equity investments at fair value through other comprehensive income		**(13,920)**	—
		117,985	(144,235)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(312)**	40
Reclassification adjustments for the cumulative loss included in profit or loss upon disposal of foreign operations		**1,686**	—
Reclassification adjustments for the cumulative gain included in profit or loss upon disposal of available-for-sale investments		**—**	(4,904)
		1,374	(4,864)
Other comprehensive income (expense) for the year		**119,359**	(149,099)
Total comprehensive income for the year		**417,145**	152,204
Total comprehensive income for the year attributable to:			
Owners of the Company		**412,172**	154,666
Non-controlling interests		**4,973**	(2,462)
		417,145	152,204
Earnings per share	16		
Basic (RMB)		**0.201**	0.207
Diluted (RMB)		**0.201**	0.206

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	17	9,497	11,819
Intangible assets	18	451,246	1,128
Goodwill	19	451,492	170,857
Available-for-sale investments	20	—	20,918
Financial assets at fair value through other comprehensive income	20	7,700	—
Interests in associates	21	162,787	18,318
Interest in a joint venture	22	—	44
		1,082,722	223,084
Current assets			
Inventories	23	860,361	504,403
Trade, bills and other receivables	24	1,401,940	1,635,818
Loans to third parties	25	542,182	942,558
Amounts due from associates	26	575,708	—
Income tax recoverable		1,448	—
Financial assets at fair value through profit or loss	27	191,830	—
Short-term bank deposits	28	83,833	1,943
Pledged bank deposits	28	306,947	184,770
Cash and cash equivalents	28	926,997	2,048,431
		4,891,246	5,317,923
Current liabilities			
Trade and other payables	29	562,610	213,014
Contract liabilities	30	2,292	—
Deposits from customers	31	—	589,178
Income tax payables		—	14,916
Bank loans	33	1,125,860	1,084,085
		1,690,762	1,901,193
Net current assets		3,200,484	3,416,730
Total assets less current liabilities		4,283,206	3,639,814

	Notes	2018 RMB'000	2017 RMB'000
Non-current liability			
Deferred tax liabilities	34	58,457	570
Net assets		4,224,749	3,639,244
Capital and reserves			
Share capital	35	1	1
Reserves		4,074,427	3,609,868
		4,074,428	3,609,869
Non-controlling interests		150,321	29,375
Total equity		4,224,749	3,639,244

The consolidated financial statements on pages 84 to 205 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Kang Jingwei, Jeffrey
Director

Wu Lun Cheung, Allen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company												
	Share capital RMB'000 (note 35)	Share premium RMB'000	Capital Reserve RMB'000 (note i)	Share-based compensation reserve RMB'000 (note ii)	Other reserve RMB'000 (note iii)	Shares held for the Restricted Share Unit Scheme ("RSU Scheme") RMB'000 (note iv)	Exchange reserve RMB'000	Statutory reserves RMB'000 (note v)	Fair value reserve RMB'000 (note vi)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	1	2,270,025	18,923	30,539	(26,286)	(92,021)	41,620	13,891	–	1,353,177	3,609,869	29,375	3,639,244
Profit for the year	–	–	–	–	–	–	–	–	–	293,179	293,179	4,607	297,786
Other comprehensive expense													
Exchange differences arising on translating foreign operations	–	–	–	–	–	–	131,227	–	–	–	131,227	366	131,593
Net change in fair value of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	–	–	(13,920)	–	(13,920)	–	(13,920)
Disposal of subsidiaries (note 42)	–	–	–	–	–	–	1,686	–	–	–	1,686	–	1,686
Total comprehensive income (expense) for the year	–	–	–	–	–	–	132,913	–	(13,920)	293,179	412,172	4,973	417,145
Arisen from business combinations (note 41)	–	–	–	–	–	–	–	–	–	–	–	122,991	122,991
Disposal of interests in subsidiaries without losing the control (note 43(a))	–	–	–	–	65,050	–	–	–	–	–	65,050	4,950	70,000
Disposal of subsidiaries (note 43(b))	–	–	–	–	–	–	–	–	–	–	–	(11,968)	(11,968)
Equity-settled share-based compensation expenses (note 40)	–	–	–	21,496	–	–	–	–	–	–	21,496	–	21,496
Repurchase and cancellation of own shares (note 35(v))	–	(13,755)	–	–	–	–	–	–	–	–	(13,755)	–	(13,755)
Repurchase shares for RSU scheme (note 35(vi))	–	–	–	–	–	(20,404)	–	–	–	–	(20,404)	–	(20,404)
Issue of shares under RSU Scheme (note 35(vii))	–	–	–	(26,131)	–	26,131	–	–	–	–	–	–	–
At 31 December 2018	1	2,256,270	18,923	25,904	38,764	(86,294)	174,533	13,891	(13,920)	1,646,356	4,074,428	150,321	4,224,749

	Attributable to owners of the Company												
	Share capital RMB'000 (note 35)	Share premium RMB'000	Capital Reserve RMB'000 (note i)	Share-based compensation reserve RMB'000 (note ii)	Other reserve RMB'000 (note iii)	Shares held for the Restricted Share Unit Scheme ("RSU Scheme") RMB'000 (note iv)	Exchange reserve RMB'000	Statutory reserves RMB'000 (note v)	Fair value reserve RMB'000 (note vi)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	1	2,375,533	18,923	23,785	(26,286)	(108,721)	184,845	4,602	4,904	1,122,908	3,600,494	85,441	3,685,935
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	302,025	302,025	(722)	301,303
Other comprehensive expense													
Exchange differences arising on translating foreign operations	–	–	–	–	–	–	(142,455)	–	–	–	(142,455)	(1,740)	(144,195)
Reclassification adjustments for the cumulative gain included in profit or loss upon disposal of available-for-sale investments	–	–	–	–	–	–	–	–	(4,904)	–	(4,904)	–	(4,904)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(142,455)	–	(4,904)	302,025	154,666	(2,462)	152,204
Disposal of subsidiaries (note 42)	–	–	–	–	–	–	(770)	–	–	–	(770)	(53,604)	(54,374)
Issue of shares under the RSU Scheme (note 35(vii))	–	–	–	(37,827)	–	37,827	–	–	–	–	–	–	–
Equity-settled share-based compensation expenses (note 40)	–	–	–	44,581	–	–	–	–	–	–	44,581	–	44,581
Interim dividends paid (note 15)	–	–	–	–	–	–	–	–	–	(62,467)	(62,467)	–	(62,467)
Repurchase and cancellation of own shares (note 35(ii))	–	(105,508)	–	–	–	–	–	–	–	–	(105,508)	–	(105,508)
Purchase of shares held for the RSU Scheme (note 35(iii))	–	–	–	–	–	(21,127)	–	–	–	–	(21,127)	–	(21,127)
Appropriations	–	–	–	–	–	–	–	9,289	–	(9,289)	–	–	–
At 31 December 2017	1	2,270,025	18,923	30,539	(26,286)	(92,021)	41,620	13,891	–	1,353,177	3,609,869	29,375	3,639,244

Notes:

(i) Capital reserve

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

(ii) Share-based compensation reserve

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

(iii) Other reserve

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

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

On 18 January 2018, Cogobuy Group, Inc, a wholly-owned subsidiary of the Group, transferred its 30% of the issued share capital of EZ Robot, Inc (formally known as Mega Smart Group Limited) in exchange of the entire 100% interest, held by Rich Wisdom Venture Limited, in 上海科姆特電子技術有限公司 ("Shanghai KMT") and its wholly owned subsidiary, 上海科姆特自動化控制技術有限公司 ("Shanghai KMT Auto"). The difference between the amount of the value of consideration shares and the amount of non-controlling interest upon acquisition, amounting to RMB65,050,000, was credited to other reserve. Please refer to note 43 for details.

(iv) Shares held for the RSU Scheme

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

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

(v) Statutory reserve

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

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

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

(vi) Fair value reserve

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	314,025	352,912
Adjustments for:		
Depreciation of property, plant and equipment	2,172	2,484
Amortisation of intangible assets	1,522	10,762
Finance costs	47,749	109,131
Bank interest income	(27,480)	(29,727)
Impairment loss on trade receivables	35,276	21,679
Impairment loss on other receivables	6,166	—
Allowance for inventories	22,613	—
Dividend income on available-for-sale securities	—	(2,096)
Share of results of associates	(7,306)	(2,872)
Share of result of a joint venture	44	956
Gain on disposal of subsidiaries	(181,787)	(26,493)
Gain on disposal of available-for-sale investments	—	(37,036)
Loss (gain) on disposal of property, plant and equipment	326	(2,027)
Loss on written-off of property, plant and equipment	216	—
Equity-settled share based compensation expenses	21,496	44,581
Operating cash flows before movements in working capital	235,032	442,254
(Increase) decrease in inventories	(314,297)	769,946
Decrease in trade, bills and other receivables	23,027	101,920
Decrease (increase) in loan to third parties	435,622	(197,975)
Decrease in trade and other payables	(73,423)	(554,815)
Decrease in contract liabilities	(1,299)	—
(Decrease) increase in deposits from customers	(589,178)	589,178
Decrease in bank loans used for Ingfin Financing Services	—	(258,788)
Cash (used in) generated from operations	(284,516)	891,720
Income tax paid	(23,572)	(105,320)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(308,088)	786,400

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Net cash outflow on acquisition of subsidiaries (note 41)	(421,070)	—
Placement of pledged bank deposits	(317,934)	(152,170)
Purchase of financial assets at fair value through profit or loss	(191,830)	—
Placement of short-term bank deposits	(81,890)	—
Net cash outflow on disposal of subsidiaries (note 43(b))	(39,229)	—
Acquisition of investment in an associate	(2,393)	—
Purchase of property, plant and equipment	(209)	(781)
Proceeds on disposal of property, plant and equipment	114	2,266
Dividend from an associate	760	—
Net cash inflow on changes in ownership of subsidiaries (note 43(a))	9,953	—
Interest received	27,480	31,376
Repayment from associates	40,416	—
Withdrawal of pledged bank deposits	195,757	1,525,483
Purchases of available-for-sale investments	—	(97,096)
Dividend received	—	2,096
Withdrawal of short-term bank deposits	—	10,706
Proceeds on disposal of a subsidiary (note 42)	—	43,858
Proceeds on disposal of available-for-sale investments	—	671,036
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(780,075)	2,036,774
FINANCING ACTIVITIES		
New bank loans raised	359,555	1,077,721
Repayment of bank loans	(363,218)	(3,293,219)
Interest and factoring costs paid	(47,749)	(109,131)
Repurchase of issued ordinary shares	(13,755)	(105,508)
Interim dividends paid	—	(62,467)
Repayment to a related party	—	(20,864)
Purchase of shares held for the RSU Scheme	(20,404)	(21,127)
NET CASH USED IN FINANCING ACTIVITIES	(85,571)	(2,534,595)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,173,734)	288,579
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,048,431	1,825,543
Effect of foreign exchange rate changes	52,300	(65,691)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	926,997	2,048,431

1. GENERAL INFORMATION

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

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. In March 2018, the address of the principal place of business of the Company has changed to 11th Floor, Microsoft Comtech Tower, No. 55 Gaoxin South 9th Road, High-Tech Industrial Park, Nanshan, Shenzhen, Guangdong Province, the PRC.

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 9 Financial Instruments

HKFRS 9 replaced the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in Note 3 below.

2.1.1 Classification and measurements of financial instruments

The directors of the Company have reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at the date and concluded that all initial application of HKFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement:

(a) Unlisted equity investments previously classified as available-for-sale investments carried at cost less impairment:

The Group had elected to present in other comprehensive income for the fair value changes in respect of certain of the Group's unlisted equity instruments amounting to approximately RMB20,918,000 as they are held for medium or long-term strategic purpose, and reclassified them to financial assets at FVTOCI upon initial application of HKFRS 9. The Group measures them at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the fair value reserve, which will not be reclassified to profit or loss when they are derecognised. As the directors of the Company assessed that the fair values of these investments approximated their carrying amounts, and therefore no adjustment was made to the carrying amounts and opening retained earnings as at 1 January 2018.

(b) Debt investments previously classified as loan and receivables carried at amortised cost:

Some of the debt investments (including trade, bills and other receivables, loans to third parties, short-term bank deposits, pledged bank deposits and cash and cash equivalent) amounting to approximately RMB4,722,934,000 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these investments continue to be measured at cost and were reclassified to financial assets at amortised cost upon application of HKFRS 9.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 9 Financial Instruments (Continued)

2.1.2 Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

Based on the assessment by the directors of the Company, the new impairment requirements have not resulted in any material impact to the loss allowance for ECL on the Group's financial assets on initial application of HKFRS 9.

2.1.3 Summary of effects arising from initial application of HKFRS 9

The table below summaries the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

	Carrying amount at 31 December 2017 (HKAS 39) RMB'000	Adoption of HKFRS 9— Reclassification RMB'000	Carrying amount at 1 January 2018 (HKFRS 9) RMB'000
Financial assets			
Loan and receivables			
— Trade, bills and others receivables	1,545,232	(1,545,232)	—
— Loans to third parties	942,558	(942,558)	—
— Short-term bank deposits	1,943	(1,943)	—
— Pledged bank deposits	184,770	(184,770)	—
— Cash and cash equivalents	2,048,431	(2,048,431)	—
At amortised cost			
— Trade, bills and others receivables	—	1,545,232	1,545,232
— Loans to third parties	—	942,558	942,558
— Short-term bank deposits	—	1,943	1,943
— Pledged bank deposits	—	184,770	184,770
— Cash and cash equivalents	—	2,048,431	2,048,431
Available-for-sale ("AFS") investments			
— Unlisted equity investments	20,918	(20,918)	—
Financial assets at fair value through other comprehensive income ("FVTOCI")			
— Unlisted equity investments	—	20,918	20,918

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 9 Financial Instruments (Continued)

2.1.3 Summary of effects arising from initial application of HKFRS 9 (Continued)

There is no impact of transition to HKFRS 9 on retained earnings at 1 January 2018.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under HKAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of HKFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of HKFRS 9.

2.2 HKFRS 15 Revenue from contracts with customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings or other components of equity, as appropriate and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue. Details are described below.

The Group's accounting policies for its revenue streams are disclosed in detail in Note 3 below.

The impact of transition to HKFRS 15 was insignificant on the retained earnings at 1 January 2018.

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors. Enhanced disclosures are set out in note 7.

The Group is principally engaged in the sales of integrated circuits ("IC") and other electronic components and the provision of supply chain financing services. The sales of IC and other electronic components are sold both on their own in separately identified contracts with customers.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.2 HKFRS 15 Revenue from contracts with customers (Continued)

2.2.1 Sale of goods and marketplace income

The Group concluded that revenue from sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, which is consistent with the previous accounting policy. Therefore, the adoption of HKFRS 15 has no impact on the timing of revenue recognition in this regard.

The Group concluded that revenue from commission fees charged to third-party merchants that sell products on the Group's marketplace platforms, should be recognised at the point of delivery of corresponding products by the merchants, which is consistent with the previous accounting policy. Therefore, the adoption of HKFRS 15 has no impact on the timing of revenue recognition in this regard.

2.2.2 Advances received from customers

The Group receives advanced payments from customers related to the sale of IC components and other electronic components. Prior to the adoption of HKFRS 15, the Group presented these advances in trade and other payables in the consolidated statement of financial position. Upon adoption of HKFRS 15, the Group assessed whether there is a significant financing component for the contracts where the length of time between the customer's advance payment and the transfer of goods to the customer is more than one year, taking into account the prevailing interest rate, and where appropriate adjusted the transaction price at contract inception. However, the Group applies the practical expedient not to adjust the transaction price for any significant financing component as the period between payment and transfer of the associated services is generally less than one year. The Group recognised contract liabilities, as named as advance received, in trade and other payables for the advances from customers for sale of IC components and other electronic components yet to be rendered or delivered.

Other than the abovementioned, the directors of the Company considered that the application of HKFRS 15 has had no material impact on (i) the amount or timing of revenue recognition in the respective periods; and (ii) the Group's presentation in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.2 HKFRS 15 Revenue from contracts with customers (Continued)

2.2.3 Summary of effects arising from initial application of HKFRS 15

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017	Impact on adoption of HKFRS 15— Reclassification	Impact on adoption of HKFRS 15— Measurement	Carrying amount as restated at 1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	213,014	(3,591)	—	209,423
Contract liabilities	—	3,591	—	3,591

2.2.4 Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of applying HKFRS 15 on the consolidated statement of financial position at 31 December 2018, by comparing the amounts reported under HKAS 11, HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of HKFRS 15 did not have material impact on the Group's operating, investing and financing cash flows.

Impact on the consolidated statement of financial position at 31 December 2018

	As reported	Impact of adopting HKFRS 15	Amount excluding impacts of adopting HKFRS 15
	RMB'000	RMB'000	RMB'000
Other payables and accruals	562,610	2,292	564,902
Contract liabilities	2,292	(2,292)	—

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) Interpretation 23	Uncertainty Over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment features with negative compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associate and Joint Venture[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective date not yet been determined.
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

HKFRS 16 Leases

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

HKFRS 16 Leases (Continued)

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

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

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

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB25,044,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on historical cost basis, except for certain financial assets that are measured at fair values.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are 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, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* (on or after 1 January 2018) or HKAS 39 *Financial Instruments: Recognition and Measurement* (before 1 January 2018) or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill relating to an associate or a joint venture that included in the carrying amount of the investment is set out in "investments in associates and joint ventures" below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in an associate and a joint venture

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Policy application to the year ended 31 December 2018 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

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

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. 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 goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from the following major sources:

- Sales of IC and other electronic components; and

- Marketplace income

Sales of goods and marketplace income

Revenue from Sales of IC and other electronic components is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of equipment).

Revenue from marketplace income (i.e. commission fees charged to third-party merchants that sell products on the Group's marketplace platforms) is recognised at the point of delivery of corresponding products by the merchants.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Significant financing component

For contracts where the period between payment and transfer of the associated goods is one year or less, the Group applies the practical expedient not to adjust the transaction price for any significant financing component.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Policy application to the year ended 31 December 2017

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

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

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

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

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

Leasing

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

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

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

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

Retirement benefits cost

Payments to the defined contribution plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

Short-term and other long-term employee benefits

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

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 an associate and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses less subsequent accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

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

Inventories

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

Cash and cash equivalents

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

Impairment losses on tangible and intangible assets (other than impairment of goodwill set out in accounting policy of goodwill above)

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets (other than impairment of goodwill set out in accounting policy of goodwill above) (Continued)

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

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

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

Financial instruments

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

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

Under HKFRS 9 (applicable on or after 1 January 2018)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset 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 are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) *Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

(i) Amortised cost and effective interest method (Continued)

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 9).

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'Other income' line item in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)
Financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor;

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)
Financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 180 days past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as 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, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Measurement and recognition of expected credit losses (Continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (1) contingent consideration of an acquirer in a business combination, (2) held-for-trading, or (3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Under HKAS 39 (applicable before 1 January 2018)

Financial assets

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

Effective interest method

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKAS 39 (applicable before 1 January 2018) (Continued)

Financial assets (Continued)

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial investments are non-derivative financial assets in some entrusted assets managed by the third-party asset management company.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKAS 39 (applicable before 1 January 2018) (Continued)
Financial assets (Continued)

Impairment loss on financial assets

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKAS 39 (applicable before 1 January 2018) (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

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

Financial liabilities and equity instruments

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

Other financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

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

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Under HKAS 39 (applicable before 1 January 2018) (Continued)

Derecognition (Continued)

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

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

Fair value measurement

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgement in applying accounting policies (Continued)

Significant influence over associates

As per note 21 to the consolidated financial statements, the directors of the Company considered ZIM (HK) Limited ("ZIM HK"), in which the Group has 15% equity interest, is an associate of the Group as the Group has significant influence over ZIM HK by virtue of its contractual right to appoint one out of three directors to the board of directors of ZIM HK.

Key sources of estimation uncertainty

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

Impairment of intangible asset and goodwill

Determining whether intangible assets and goodwill are impaired requires an estimation of the value-in-use of the cash-generating units ("CGUs") to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of intangible assets and goodwill were approximately RMB451,246,000 (2017: RMB1,128,000) and RMB451,492,000 (2017: RMB170,857,000) respectively. No impairment loss in respect of goodwill has been recognised in profit or loss for the years ended 31 December 2018 and 2017 (Details of the recoverable amount calculation are disclosed in note 19).

Impairment of property, plant and equipment

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

As at 31 December 2018, the carrying amount of property, plant and equipment was approximately RMB9,497,000 (2017: RMB11,819,000). Based on the estimated recoverable amounts, no impairment loss in respect of property, plant and equipment has been recognised in profit or loss for the years ended 31 December 2018 and 2017.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful life, using the straight line method. The estimated useful life reflects the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. As at 31 December 2018, the carrying amounts of property, plant and equipment are approximately RMB9,497,000 (2017: RMB11,819,000).

Amortisation of intangible assets

The Group amortises the intangible assets over their estimated useful life, using the straight line method. The estimated useful life is based on the historical experience of the actual useful life of intangible assets of similar functions. As at 31 December 2018, the carrying amounts of intangible assets are approximately RMB451,246,000 (2017: RMB1,128,000).

Allowance for inventories

Management reviews the condition of the inventories of the Group and makes provision allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group carries out an inventory review at the end of each reporting period and makes allowance for obsolete and slow-moving items. As at 31 December 2018, the carrying amounts of inventories were approximately RMB860,361,000 (2017: RMB504,403,000) (net of allowance for inventories of approximately RMB26,742,000) (2017: RMB57,567,000).

Allowance recognised in respect of trade and other receivables, loans to third parties and amounts due from associates

The impairment provisions for trade receivables, other receivables, loans to third parties and amounts due from associates are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. At 31 December 2018, carrying amounts of trade receivables, other receivables, loans to third parties and amounts due from associates are approximately RMB1,246,794,000, RMB15,086,000, RMB542,182,000 and RMB575,708,000 respectively (net of impairment losses of approximately RMB147,159,000, RMB6,166,000, nil and nil respectively).

5. CAPITAL RISK MANAGEMENT

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

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

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. The Group's policy is to maintain the gearing ratio at not more than 100% (2017: 100%), which is determined and reviewed with reference to the funding needs of the Group annually. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank loans disclosed in note 33, net of pledged bank deposits, short-term bank deposits and cash and cash equivalents disclosed in note 28 and total equity. The net debt-to-equity ratio at the end of the reporting period was as follows:

	2018 RMB'000	2017 RMB'000
Net debt	(191,917)	(1,151,059)
Equity	4,224,749	3,639,244
Net debt to equity ratio (%)	(4.54)	(31.63)

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost/loans and receivables (including cash and cash equivalents)	3,761,665	4,722,934
Financial assets at FVTPL		
— Equity instruments designated at FVTPL	191,830	—
Financial assets at FVTOCI		
— Equity instruments designated at FVTOCI	7,700	—
Available-for sale investments	—	20,918
	3,961,195	4,743,852
Financial liabilities		
Financial liabilities at amortised cost	1,688,470	1,882,686

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade, bills and other receivables, unlisted equity investments, loans to third parties, amounts due from associates, short-term bank deposits, pledged bank deposits, cash and cash equivalents, trade and other payables, deposits from customers and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (currency risk and interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

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

As at 31 December 2018, the Group had an aggregate amount of RMB22,109,000 (2017: RMB36,031,000) which represented pledged bank deposits and cash and cash equivalent that denominated in non-functional currency in respect of the Group entities. Since the impact of net exposure to the currency risk is insignificant, no sensitive analysis is presented.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans to third parties (see note 25), fixed-rate short-term bank deposits (see note 28) and fixed-rate pledged bank deposits (see note 28).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate loans to third parties (see note 25) and variable-rate bank loans (see note 33). It is the Group's policy to keep its loans at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank-Offered Rate ("LIBOR") (2017: Hong Kong Interbank-Offered Rate ("HIBOR")) arising from the Group's US$ denominated bank loans.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2017: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 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 decrease/increase by approximately RMB4,770,000 (2017: decrease/increase by approximately RMB3,651,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank loans.

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position.

The credit risk of our Group mainly arises from trade, bills and other receivables, loans to third parties and amounts due from associates. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Starting from 1 January 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for customer with significant balances and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For loans to third parties and other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

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

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase the Group compares the risk of a default occurring on the asset as at the reporting date with the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-art guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL — not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

31/12/2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables	24	N/A	(Note)	Lifetime ECL (simplified approach)	1,393,953	(147,159)	1,246,794
Bills receivables	24	N/A	Performing	12-month ECL	48,923	—	48,923
Other receivables	24	N/A	Performing	12-month ECL	15,086	—	15,086
Other receivables	24	N/A	Doubtful	Lifetime ECL — not credit impaired	6,166	(6,166)	—
Loans to third parties	25	N/A	Performing	12-month ECL	542,182	—	542,182
Amounts due from associates	26	N/A	Performing	12-month ECL	575,708	—	575,708
						(153,325)	

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 24 includes further details on the loss allowance for these assets respectively.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group has concentration of credit risk as 51% (2017: 41%) and 64% (2017: 24%) of the total trade receivables was due from the Group's largest external customer and the top five largest external customers respectively as at 31 December 2018.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

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

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

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

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

		At 31 December 2018	
	Within 1 year or on demand RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	562,610	562,610	562,610
Bank loans	1,128,336	1,128,336	1,125,860
	1,690,946	1,690,946	1,688,470

		At 31 December 2017	
	Within 1 year or on demand RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	209,423	209,423	209,423
Deposits from customers	589,178	589,178	589,178
Bank loans	1,095,603	1,095,603	1,084,085
	1,894,204	1,894,204	1,882,686

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

As at 31 December 2018, bank loans with a repayment on demand clause are included in the "within 1 year or on demand" time band in the above maturity analysis. The aggregate undiscounted principal amounts of these bank loans amounted to approximately RMB963,353,000 (2017: RMB1,005,177,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash flows will amount to approximately RMB1,172,518,000 (2017: RMB1,122,976,000).

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

Fair value measurement recognised in the consolidated statement of financial position

As at 31 December 2018, some of the Group's financial assets are measured at fair value (2017: nil). The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	At 31 December 2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Structure deposits	—	191,830	—	191,830
Financial assets at FVTOCI				
Unlisted equity securities	—	—	7,700	7,700

	At 31 December 2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets				
Unlisted equity securities	—	—	20,918	20,918

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

6. FINANCIAL INSTRUMENTS (Continued)

Fair value measurement recognised in the consolidated statement of financial position (Continued)

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

The valuation techniques and inputs used in the fair value measurements of each financial instruments on a recurring basis are set out below:

Financial instruments	Fair value hierarchy	Fair value as at 31 December 2018 RMB'000	2017 RMB'000	Valuation technique
Structure deposits	Level 2	191,830	—	Quoted rate of return by issuing bank
Unlisted equity instruments	Level 3	7,700	20,918	Adjusted net asset method*

* The Group has determined that the reported net asset values represent fair value of the unlisted equity instruments.

Reconciliation of Level 3 fair value measurements of financial assets on recurring basis:

	Unlisted equity investments* RMB'000
At 1 January 2018	20,918
Total loss in other comprehensive income	(12,137)
Exchange adjustment	702
At 31 December 2018	9,483

* As at 1 January 2018, these equity securities were reclassified from available-for-sale investments to financial assets at FVTOCI.

7. REVENUE

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

	2018 RMB'000	2017* RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
— Sales of IC and other electronic components	5,427,785	9,364,467
— Marketplace income	40,778	75,553
	5,468,563	9,440,020
Revenue from other sources		
— Ingfin Financing Services income	66,266	173,676
	5,534,829	9,613,696

* The amounts for the year ended 31 December 2017 were recognised in HKAS 18.

7. REVENUE (Continued)

Set out below is the disaggregation of the Group's revenue from contracts with customers within the scope of HKFRS 15:

	Sales of IC and other electronic components and marketplace operation RMB '000	Ingdan services RMB '000	Total RMB '000
For the year ended 31 December 2018			
Revenue from goods and services:			
Sales of IC and other electronic components	4,675,236	752,549	5,427,785
Marketplace income	36,544	4,234	40,778
	4,711,780	756,783	5,468,563
Timing of revenue recognition			
A point in time	4,711,780	756,783	5,468,563
Geographical markets			
The People's Republic of China (including Hong Kong)	4,570,095	756,783	5,326,878
Southeast Asia	141,685	—	141,685
	4,711,780	756,783	5,468,563

8. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services provided.

8. SEGMENT INFORMATION (Continued)

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

— Sales of IC and other electronic components for distribution business and marketplace operation (except for Artificial Intelligence and Internet of Things ("AIoT") products); and

— Ingdan services, including sales of products and marketplace operation provided for AIoT products, Ingfin Financing Services and incubator.

Sales of IC and other electronic components and marketplace income (except for AIoT products), identified by the chief operating decision maker, have been aggregated in arriving at the reportable segments of the Group.

During the year ended 31 December 2018, the Group reorganised its internal reporting structure by reclassifying the sales of products and marketplace operation provided for AIoT and incubator business from "Sales of IC and other electronic components and marketplace operation" to "Ingdan services" so as to enhance operational efficiency, and the chief operating decision maker (i.e. executive directors of the Company) considers that sales of products and marketplace operation provided for AIoT, Ingfin Financing Services and incubator having similar economic characteristics (i.e. AIoT industry) are aggregated for financial reporting purposes. This resulted in a change in the composition of the Group's reportable segments such that "Financing services" was renamed as "Ingdan services". Accordingly, the comparative segment information has been re-presented to conform to current year's presentation.

Segment revenues and results

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

For the year ended 31 December 2018

	Sales of IC and other electronic components and marketplace operation RMB'000	Ingdan services RMB'000	Total RMB'000
Segment revenue	4,711,780	823,049	5,534,829
Segment profit	183,334	5,294	188,628
Gain on disposal of subsidiaries	—	181,787	181,787
Unallocated income			82,776
Unallocated corporate expenses			(98,679)
Unallocated finance costs			(47,749)
Share of results of associates			7,306
Share of result of a joint venture			(44)
Profit before tax			314,025

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2017

	Sales of IC and other electronic components and marketplace operation RMB'000	Ingdan services RMB'000	Total RMB'000
Segment revenue	7,742,598	1,871,098	9,613,696
Segment profit	409,236	104,556	513,792
Gain on disposal of subsidiaries	—	26,493	26,493
Gain on disposal of property, plant and equipment			2,027
Unallocated income			72,315
Unallocated corporate expenses			(154,500)
Unallocated finance costs			(109,131)
Share of result of an associate			2,872
Share of result of a joint venture			(956)
Profit before tax			352,912

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, other income, finance costs, share of results of associates and share of result of a joint venture. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

Segment assets

	2018 RMB'000	2017 RMB'000
Sales of IC and other electronic components and marketplace operation	1,388,409	1,568,298
Ingdan services	2,198,670	1,584,649
Total segment assets	3,587,079	3,152,947
Interests in associates	162,787	18,318
Interest in a joint venture	—	44
Corporate and other assets	2,224,102	2,369,698
Total assets	5,973,968	5,541,007

Segment liabilities

	2018 RMB'000	2017 RMB'000
Sales of IC and other electronic components and marketplace operation	413,510	84,042
Ingdan services	113,504	695,257
Total segment liabilities	527,014	779,299
Corporate and other liabilities	1,222,205	1,122,464
Total liabilities	1,749,219	1,901,763

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

— All assets are allocated to operating segment, other than intangible assets, goodwill, interests in associates and a joint venture, financial assets at FVTOCI, financial assets at FVTPL, certain other receivables, amounts due from associates, income tax recoverables, short-term bank deposits, pledged bank deposits, cash and cash equivalent and other corporate assets; and

— All liabilities are allocated to operating segments, other than certain other payables and accruals, unallocated amount due to a related party, income tax payables, bank loans, deferred tax liabilities and other corporate liabilities.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2018

	Sales of IC and other electronic components and marketplace operation RMB'000	Ingdan services RMB'000	Unallocated RMB'000	Total RMB'000
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets (Note)	209	566,828	—	567,037
Depreciation and amortisation	2,170	1,333	191	3,694
Loss allowance on trade receivables	30,030	5,246	—	35,276
Loss on disposal of property, plant and equipment	326	—	—	326
Loss on written-off of property, plant and equipment	216	—	—	216
Allowance for inventories	17,354	5,259	—	22,613
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Gain on disposal of subsidiaries	—	181,787	—	181,787
Bank interest income	—	—	27,480	27,480
Interest expense	—	—	47,749	47,749
Interests in associates	—	—	162,787	162,787
Interest in a joint venture	—	—	—	—
Share of results of associates	—	—	(7,306)	(7,306)
Share of result of a joint venture	—	—	44	44
Income tax expense	13,788	2,451	—	16,239

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2017

	Sales of IC and other electronic components and marketplace operation RMB'000	Ingdan services RMB'000	Unallocated RMB'000	Total RMB'000
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets (Note)	781	—	—	781
Depreciation and amortisation	2,484	—	10,762	13,246
Impairment loss on trade receivables	21,679	—	—	21,679
Gain on disposal of property, plant and equipment	(2,027)	—	—	(2,027)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Gain on disposal of available-for-sale investments	—	—	(37,036)	(37,036)
Gain on disposal of subsidiaries	—	—	(26,493)	(26,493)
Bank interest income	—	—	(29,727)	(29,727)
Interest expense	—	—	109,131	109,131
Interest in an associate	—	—	18,318	18,318
Interest in a joint venture	—	—	44	44
Share of result of an associate	—	—	(2,872)	(2,872)
Share of result of a joint venture	—	—	956	956
Income tax expense	46,468	5,141	—	51,609

Note: Non-current assets excluded goodwill, financial assets at FVTOCI and interests in associates.

Geographical information

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

8. SEGMENT INFORMATION (Continued)

Information about major customers

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

	2018 RMB'000	2017 RMB'000
Customer A[1]	1,118,890	1,694,817

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

9. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Exchange gain, net	53,221	—
Bank interest income	27,480	29,727
Commission income	1,168	2,191
Government grants (note)	907	1,265
Gain on disposal of available-for-sale investments	—	37,036
Gain on disposal of property, plant and equipment	—	2,027
Dividend income on available-for-sale investments	—	2,096
	82,776	74,342

Note: Included in the amount of government grant recognised during the year ended 31 December 2018, approximately of RMB907,000 (2017: RMB1,265,000) was received from the PRC local government authorities in respect of subsidising the Group's research and development activities, which were immediately recognised as other income for the year as the Group fulfilled all the relevant granting criteria.

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interests on bank loans	47,749	69,853
Factoring costs	—	39,278
	47,749	109,131

11. INCOME TAX EXPENSES

	2018 RMB'000	2017 RMB'000
Current tax:		
PRC Enterprises Income Tax ("EIT")	8,538	26,804
Hong Kong Profits Tax	7,949	25,739
Other jurisdictions	4	842
	16,491	53,385
Deferred taxation (note 34)	(252)	(1,776)
	16,239	51,609

Notes:

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

b) 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 corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profit.

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

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

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

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

* For identification purpose only

11. INCOME TAX EXPENSES (Continued)

Notes: (continued)

g) 深圳赤狐軟件技術有限公司 and 深圳市協諾通信技術有限公司, being qualified software enterprises, are each granted a tax holiday of two-year tax exemption followed by three-year 50% tax reduction (subject to annual review) starting from the first profit making year from the PRC tax perspective under the then effective tax regulations ("two-year exemption and three-year reduction") during 2018. As a result, they are exempted from CIT for 2018 and 2019, and are subject to CIT at 12.5% from 2020 to 2022.

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

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

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

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	314,025	352,912
Tax at the domestic income tax rate of 25% (2017: 25%)	78,506	88,228
Tax effect of two-year exemption and three-year reduction	(48,780)	(69,584)
Tax effect of entities of jurisdictions not subject to income tax	1,134	7,423
Tax effect of share of results of associates	(1,827)	(718)
Tax effect of share of result of a joint venture	11	239
Tax effect of income not taxable for tax purposes	(46,651)	(6,892)
Tax effect of expenses not deductible for tax purposes	10,019	29,702
Tax effect of tax losses not recognised	20,181	10,735
Effect of two-tiered profits tax rates regime	(139)	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	3,870	(7,403)
Hong Kong Profits Tax exemption granted (note)	(85)	(121)
Income tax expenses	16,239	51,609

Note: Hong Kong Profits Tax exemption granted represented a reduction of Hong Kong Profits Tax for both years of assessment 2018/2019 and 2017/2018 by 75%, subject to a ceiling of HK$20,000 (equivalent to approximately RMB17,000) for each entity.

Details of the deferred taxation are set out in note 34.

12. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging:		
Directors' and chief executive's emoluments (note 13)	4,321	3,370
Salaries, wages, allowance and other benefits	119,111	113,719
Retirement benefit scheme contributions	21,918	22,622
Equity-settled share-based compensation expenses (excluding directors' and chief executive emoluments) (note 40)	21,496	44,581
Total staff costs	166,846	184,292
Amortisation of intangible assets	1,522	10,762
Depreciation of property, plant and equipment	2,172	2,484
Auditors' remuneration	5,796	4,993
Loss allowance on trade receivables	35,276	21,679
Loss allowance on other receivables	6,166	—
Loss on disposal of property, plant and equipment	326	—
Loss on written-off of property, plant and equipment	216	—
Allowance for inventories	22,613	—
Exchange loss, net	—	1,208
Operating lease charges in respect of rented premises	17,008	15,480
Research and development expenses	126,979	118,269
Amount of inventories recognised as an expense	5,079,657	8,730,675

Note: Research and development expenses include staff costs of employees in the design, research and development function of approximately RMB76,791,000 (2017: RMB85,402,000) for the year ended 31 December 2018, such amount is also included in the staff costs as disclosed as above.

Research and development expenses also include operating lease charges in respect of rented premises of approximately RMB6,225,000 (2017: RMB4,836,000) and amortisation and depreciation charge of approximately RMB981,000 (2017: RMB935,000) for the year ended 31 December 2018, such amounts are also included in the amortisation of intangible assets, depreciation of property, plant and equipment and operating lease charges in respect of rented premises as disclosed above.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

a) Directors' and chief executive's emoluments

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

	Directors' fee RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Sub-total RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Year ended 31 December 2018							
Executive directors							
Mr. Kang Jingwei, Jeffrey ("Mr. Kang")	–	1,000	–	15	1,015	–	1,015
Mr. Wu Lun Cheung Allen	–	1,000	1,265	15	2,280	–	2,280
Ms. Ni Hong, Hope ("Ms. Ni")	253	–	–	13	266	–	266
Non-executive director							
Mr. Kim Jin Ha, Jason (note i)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Ye Xin	253	–	–	–	253	–	253
Dr. Ma Qiyuan	253	–	–	–	253	–	253
Mr. Hao Chunyi, Charlie (note iii)	223	–	–	–	223	–	223
Mr. Zhong Xiaolin, Forrest (note iv)	31	–	–	–	31	–	31
	1,013	2,000	1,265	43	4,321	–	4,321

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

a) Directors' and chief executive's emoluments (Continued)

	Directors' fee RMB'000	Salaries, allowance and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Sub-total RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Year ended 31 December 2017						
Executive directors						
Mr. Kang	–	1,167	25	1,192	–	1,192
Mr. Wu Lun Cheung Allen	–	1,000	16	1,016	–	1,016
Ms. Ni	260	–	13	273	–	273
Non-executive directors						
Mr. Guo Jiang (note v)	108	–	–	108	–	108
Mr. Kim Jin Ha, Jason (note i)	–	–	–	–	–	–
Independent non-executive directors						
Mr. Ye Xin	260	–	–	260	–	260
Dr. Ma Qiyuan (note ii)	151	–	–	151	–	151
Mr. Zhong Xiaolin, Forrest	260	–	–	260	–	260
Mr. Yan Andrew Y (note vi)	110	–	–	110	–	110
	1,149	2,167	54	3,370	–	3,370

Notes:

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

(ii) Appointed on 2 June 2017

(iii) Appointed on 13 February 2018

(iv) Resigned on 13 February 2018

(v) Resigned on 1 September 2017

(vi) Resigned on 2 June 2017

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

a) Directors' and chief executive's emoluments (Continued)

Except Ms. Ni, the executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

Ms. Ni's, non-executive directors' and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

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

Neither the chief executive nor any of the directors of the Company waived or agreed to waive the emolument paid by the Group during the years ended 31 December 2018 and 2017. No emoluments were paid by the Group to the chief executive and directors of the Company as an inducement for joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2017.

b) Directors' retirement benefits and termination benefits

Save as disclosed in note 13(a), the directors did not receive any other retirement benefits or termination benefits during the years ended 31 December 2018 and 2017.

c) Consideration provided to third parties for making available directors' services

No consideration provided to or receivable by third parties for making available director's services subsisted at the end of the year or at any time during the years ended 31 December 2018 and 2017.

d) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

There were no other loans, quasi-loans and other dealings in favor of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or a any time during the years ended 31 December 2018 and 2017.

e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2018 and 2017.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2017: two) was a director (2017: directors and the chief executive) of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining four (2017: three) highest paid individuals were as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowance and other benefits	4,560	3,051
Share-based compensation expenses	8,903	2,011
Retirement benefits scheme contributions	193	186
	13,656	5,248

Their emoluments were within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$nil to HK$1,000,000 (equivalent to approximately RMB833,000)	–	–
HK$1,000,001 (equivalent to approximately RMB833,000) to HK$1,500,000 (equivalent to approximately RMB1,249,000)	–	–
HK$1,500,001 (equivalent to approximately RMB1,249,000) to HK$2,000,000 (equivalent to approximately RMB1,665,000)	–	2
HK$2,000,001 (equivalent to approximately RMB1,665,000) to HK$2,500,000 (equivalent to approximately RMB2,082,000)	–	1
HK$2,500,001 (equivalent to approximately RMB2,082,000) to HK$3,000,000 (equivalent to approximately RMB2,498,000)	1	–
HK$3,000,001 (equivalent to approximately RMB2,498,000) to HK$3,500,000 (equivalent to approximately RMB2,914,000)	2	–
HK$7,000,001 (equivalent to approximately RMB5,829,000) to HK$7,500,000 (equivalent to approximately RMB6,245,000)	1	–

No emoluments were paid by the Group to the five highest paid individuals as an inducement for joining the Group or as compensation for loss of office during the years ended 31 December 2018 and 2017.

14. EMPLOYEES' EMOLUMENTS (Continued)

Remuneration paid to the senior management (including executive directors) by bands for the years ended 31 December 2018 and 2017 are set out below:

	2018 Number of individuals	2017 Number of individuals
HK$nil to HK$500,000 (equivalent to approximately RMB416,000)	2	2
HK$500,001 (equivalent to approximately RMB416,000) to HK$1,000,000 (equivalent to approximately RMB833,000)	—	2
HK$1,000,001 (equivalent to approximately RMB833,000) to HK$1,500,000 (equivalent to approximately RMB1,249,000)	1	2
HK$1,500,001 (equivalent to approximately RMB1,249,000) to HK$2,000,000 (equivalent to approximately RMB1,665,000)	2	—
HK$2,000,001 (equivalent to approximately RMB1,665,000) to HK$2,500,000 (equivalent to approximately RMB2,082,000)	—	—
HK$2,500,001 (equivalent to approximately RMB2,082,000) to HK$3,000,000 (equivalent to approximately RMB2,498,000)	1	—
HK$3,000,001 (equivalent to approximately RMB2,498,000) to HK$3,500,000 (equivalent to approximately RMB2,914,000)	—	—
HK$3,500,001 (equivalent to approximately RMB2,914,000) to HK$4,000,000 (equivalent to approximately RMB3,331,000)	—	1
HK$4,000,001 (equivalent to approximately RMB3,331,000) to HK$7,000,000 (equivalent to approximately RMB5,829,000)	—	—
HK$7,000,001 (equivalent to approximately RMB5,829,000) to HK$7,500,000 (equivalent to approximately RMB6,245,000)	1	—

15. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends recognised as distribution during the year 2018 Interim — HK$ nil (2017 Interim — HK$0.05) per share	—	62,467

No final dividend was proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: RMB62,467,000).

16. EARNINGS PER SHARE

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

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share, representing profit for the year attributable to owners of the Company	293,179	302,025

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,455,555	1,456,679
Effect of dilutive potential ordinary shares:		
Deemed issue of shares under the Company's RSU scheme for nil consideration	2,591	6,945
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	1,458,146	1,463,624

17. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles RMB'000	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Total RMB'000
COST				
At 1 January 2017	915	7,145	9,881	17,941
Additions	—	—	781	781
Disposals	—	—	(1,920)	(1,920)
Disposal of a subsidiary (note 42)	—	—	(44)	(44)
Exchange adjustments	(98)	(87)	(316)	(501)
At 31 December 2017 and 1 January 2018	817	7,058	8,382	16,257
Additions	—	—	209	209
Acquired on acquisition of subsidiaries (note 41 and note 43(a))	19	—	640	659
Disposals	—	—	(858)	(858)
Written-off	—	—	(283)	(283)
Disposal of subsidiaries (note 43(b))	—	—	(555)	(555)
Exchange adjustments	6	49	78	133
At 31 December 2018	842	7,107	7,613	15,562
DEPRECIATION AND IMPAIRMENT				
At 1 January 2017	180	1,594	1,978	3,752
Charge for the year	169	800	1,515	2,484
Eliminated on disposals	—	—	(1,681)	(1,681)
Disposal of a subsidiary (note 42)	—	—	(2)	(2)
Exchange adjustments	(29)	(36)	(50)	(115)
At 31 December 2017 and 1 January 2018	320	2,358	1,760	4,438
Charge for the year	171	706	1,295	2,172
Eliminated on disposals	—	—	(418)	(418)
Eliminated on written-off	—	—	(67)	(67)
Disposal of subsidiaries (note 43(b))	—	—	(90)	(90)
Exchange adjustments	2	16	12	30
At 31 December 2018	493	3,080	2,492	6,065
CARRYING VALUES				
At 31 December 2018	349	4,027	5,121	9,497
At 31 December 2017	497	4,700	6,622	11,819

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

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

18. INTANGIBLE ASSETS

	Internet platform	Customer relationships	Domain name and trademark	Supplier relationships	Non-compete agreements	Information systems	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2017	2,965	39,901	2,208	45,507	5,216	—	95,797
Disposal of a subsidiary (note 42)	—	(2,535)	—	(45,507)	(5,216)	—	(53,258)
Exchange adjustments	(187)	(2,511)	15	—	—	—	(2,683)
At 31 December 2017	2,778	34,855	2,223	—	—	—	39,856
Acquired on acquisition of subsidiaries (note 41 and 43(a))	—	11,918	—	397,729	55,342	101,180	566,169
Disposal of subsidiaries (note 43(b))	—	—	—	(114,547)	—	—	(114,547)
Exchange adjustments	158	2,149	(37)	—	—	—	2,270
At 31 December 2018	2,936	48,922	2,186	283,182	55,342	101,180	493,748
ACCUMULATED AMORTISATION							
At 1 January 2017	2,965	29,488	786	10,112	1,160	—	44,511
Charge for the year	—	7,091	196	3,123	352	—	10,762
Disposal of a subsidiary (note 42)	—	(691)	—	(13,235)	(1,512)	—	(15,438)
Exchange adjustments	(187)	(1,033)	113	—	—	—	(1,107)
At 31 December 2017	2,778	34,855	1,095	—	—	—	38,728
Charge for the year	—	28	191	966	158	179	1,522
Exchange adjustments	158	2,196	(109)	—	—	7	2,252
At 31 December 2018	2,936	37,079	1,177	966	158	186	42,502
CARRYING VALUES							
At 31 December 2018	—	11,843	1,009	282,216	55,184	100,994	451,246
At 31 December 2017	—	—	1,128	—	—	—	1,128

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

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

19. GOODWILL

	RMB'000
COST	
At 1 January 2017	201,659
Elimination on disposal of a subsidiary (note 42)	(19,326)
Exchange adjustments	(11,476)
At 31 December 2017	170,857
Arising on acquisition of subsidiaries (note 41)	270,818
Exchange adjustments	9,817
At 31 December 2018	451,492
ACCUMULATED IMPAIRMENT LOSSES	
At 1 January 2017, 31 December 2017 and 31 December 2018	—
CARRYING VALUES	
At 31 December 2018	451,492
At 31 December 2017	170,857

For the purpose of impairment testing, goodwill arising from the business combinations was allocated to four individual CGUs of the Group, which is the Group's sales of IC and other electronic components business and Ingdan Services business. The carrying amounts of goodwill as at 31 December 2018 and 2017 allocated to these units are as follows:

	2018 RMB'000	2017 RMB'000
Sales of IC and other electronic components	180,674	170,857
Ingdan Services		
— Risingnovas Holdings Limited	43,763	—
— New United Holdings Limited	105,546	—
— Heicolink Holdings Limited	121,509	—
	451,492	170,857

During the year ended 31 December 2018, the management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

19. GOODWILL (Continued)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

CGU — Sales of IC and other electronic components

The recoverable amount of this CGU has been determined based on value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated weighted average growth rate of 3.0% for the CGU (2017: 3.0%).

The estimated weighted average growth rates are consistent with the forecast included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 17.5% (2017: 17.5%). Key assumptions used for the value-in-use calculations are the revenue, gross margins and growth rates. Management determined the budgeted revenue, gross margins and growth rates based on past performance and its expectation for market development.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as of 31 December 2018 and 2017. The Group performs annual impairment test on goodwill at the end of the reporting period. Accordingly, no impairment loss for goodwill has been recognised in the consolidated statement of profit or loss and other comprehensive income (2017: nil).

CGU — Ingdan Services (Risingnovas Holdings Limited)

The recoverable amount of this CGU has been determined based on value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated weighted average growth rate of 3.0% for the CGU.

The estimated weighted average growth rates are consistent with the forecast included in economic forecast reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 16.5%. Key assumptions used for the value-in-use calculations are the revenue, gross margins and growth rates. Management determined the budgeted revenue, gross margins and growth rates based on past performance and its expectation for market development.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as of 31 December 2018. The Group performs annual impairment test on goodwill at the end of the reporting period. Accordingly, no impairment loss for goodwill has been recognised in the consolidated statement of profit or loss and other comprehensive income.

19. GOODWILL (Continued)

CGU — Ingdan Services (New United Holdings Limited)

The recoverable amount of this CGU has been determined based on value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated weighted average growth rate of 3.0% for the CGU.

The estimated weighted average growth rates are consistent with the forecast included in economic forecast reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 16.4%. Key assumptions used for the value-in-use calculations are the revenue, gross margins and growth rates. Management determined the budgeted revenue, gross margins and growth rates based on past performance and its expectation for market development.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as of 31 December 2018. The Group performs annual impairment test on goodwill at the end of the reporting period. Accordingly, no impairment loss for goodwill has been recognised in the consolidated statement of profit or loss and other comprehensive income.

CGU — Ingdan Services (Heicolink Holdings Limited)

The recoverable amount of this CGU has been determined based on value-in-use calculation, which uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated weighted average growth rate of 3.0% for the CGU.

The estimated weighted average growth rates are consistent with the forecast included in economic forecast reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rate of 17.1%. Key assumptions used for the value-in-use calculations are the revenue, gross margins and growth rates. Management determined the budgeted revenue, gross margins and growth rates based on past performance and its expectation for market development.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as of 31 December 2018. The Group performs annual impairment test on goodwill at the end of the reporting period. Accordingly, no impairment loss for goodwill has been recognised in the consolidated statement of profit or loss and other comprehensive income.

20. AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at FVTOCI comprise:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Equity investments designated as at FVTOCI:		
— Unlisted	7,700	20,918
Analysed for reporting purposes as:		
Non-current assets	7,700	20,918

The fair value of these investments is disclosed in note 6.

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities or partnership incorporated in the PRC.

These equity investments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these equity investments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

Available-for-sale investments comprise:

	2017 RMB'000
Unlisted investments:	
— Equity securities	20,918
Analysed for reporting purposes as:	
Non-current assets	20,918

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

21. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Cost of investment in associates — unlisted	151,232	13,432
Share of post acquisition profit and other comprehensive income, net of dividends received	11,555	4,886
	162,787	18,318

At 31 December 2018 and 2017, the Group had interests in the following associates:

Name of entities	Form of business	Principal place of operation and incorporation	Class of shares held	Proportion of ownership interest or participating shares held by the Group 2018	2017	Proportion of voting power held by the Group 2018	2017	Principal activities
Zim Hong Kong Limited ("ZIM HK")	Incorporated	Hong Kong	Ordinary shares	15% (note i)	15% (note i)	15% (note i)	15% (note i)	Trading of IC and other electronic components
EZ Robot, Inc ("EZ Robot")	Incorporated	BVI	Ordinary shares	49%	N/A	49%	N/A	Investment holding
Comtech Industrial (Hong Kong) Limited ("CIHK")	Incorporated	Hong Kong	Ordinary shares	49%	N/A	49%	N/A	Trading of IC and other electronic components
Shanghai KMT	Incorporated	PRC	Ordinary shares	49%	N/A	49%	N/A	Trading of IC and other electronic components
Shanghai KMT Auto	Incorporated	PRC	Ordinary shares	49%	N/A	49%	N/A	Trading of IC and other electronic components
IngDan Japan Corporation (note ii)	Incorporated	Japan	Ordinary shares	40%	N/A	40%	N/A	Dormant

Notes:

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

(ii) During the year ended 31 December 2018, the Group acquired 40% of interests in IngDan Japan Corporation with an amount of approximately RMB2,393,000.

21. INTERESTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the associates, namely ZIM HK and EZ Robot and its subsidiaries (the "EZ Robot Group"), those are material to the Group and are accounted for using equity method is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

Zim HK Limited

	2018 RMB'000	2017 RMB'000
Current assets	456,664	482,282
Non-current assets	116	383
Current liabilities	(363,987)	(396,598)
Revenue	1,622,411	1,713,930
Profit and total comprehensive income for the year	10,852	19,147
Dividends received from the associate during the year	(760)	—

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

	2018 RMB'000	2017 RMB'000
Net assets of the associate	92,793	86,067
Proportion of the Group's ownership interest in Zim HK	15%	15%
Group's share of net assets of the associate	13,919	12,910
Goodwill	5,408	5,408
Carrying amount of the Group's interest in Zim HK	19,327	18,318

21. INTERESTS IN ASSOCIATES (Continued)

EZ Robot Group

	2018 RMB'000
Current assets	914,207
Non-current assets	127,153
Current liabilities	(918,211)

	Period from the date of transfer (25 June 2018) to 31 December 2018 RMB'000
Revenue	1,655,406
Profit and total comprehensive income	12,376

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

	2018 RMB'000
Net assets of the associate	123,149
Proportion of the Group's ownership interest in EZ Robot Group	49%
Group's share of net assets of the associate	60,343
Goodwill	81,128
Carrying amount of the Group's interest in EZ Robot Group	141,471

The financial information and carrying amount, in aggregate, of the Group's interests in associates that are not individually material and are accounted for using the equity method are set out below:

	2018 RMB'000
Group's share of loss for the year	(386)
Carrying amount of the Group's interest in immaterial associates	1,989

22. INTEREST IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Cost of investment in a joint venture — unlisted	1,000	1,000
Share of post acquisition loss	(1,000)	(956)
	—	44

At 31 December 2018 and 2017, the Group had interest in the following joint venture:

Name of entities	Form of business	Principal place of operation and establishment	Class of shares held	Proportion of ownership interest or participating shares held by the Group 2018	2017	Proportion of voting power held by the Group 2018	2017	Principal activities
ZZJ Intelligent Technology (Shanghai) Limited* 蜘蛛家智能科技(上海)有限公司 ("ZZJ Shanghai")	Incorporated	PRC	Contributed capital	50%	50%	50%	50%	Provision of Information Technology integration services

* For identification purpose only

The registered capital of ZZJ Shanghai was RMB1,000,000 upon its establishment.

The Group has stopped recognising its share of loss of ZZJ Shanghai when applying the equity method. The unrecognised share of ZZJ Shanghai, both for the year and cumulatively, are set out below:

	2018 RMB'000	2017 RMB'000
Unrecognised share of loss of joint venture for the year	(26)	—
Accumulated unrecognised share of loss of joint venture	(26)	—

23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	860,361	504,403

As 31 December 2018, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB26,742,000 (2017: RMB57,567,000).

During the year ended 31 December 2018, there was a decrease in allowance of approximately RMB53,438,000 (2017: nil) for inventories due to elimination of allowances upon the subsequent sales of inventories during the year.

24. TRADE, BILLS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Receivables at amortised cost comprise:		
Trade receivables	1,393,953	1,590,405
Bills receivables	48,923	22,742
Trade and bills receivables	1,442,876	1,613,147
Less: loss allowance for trade receivables	(147,159)	(111,883)
	1,295,717	1,501,264
Loan interest receivables	15,195	21,073
Trade deposits and prepayments	75,942	90,586
Other receivables (note i)	21,252	22,895
	1,408,106	1,635,818
Less: loss allowance for other receivables	(6,166)	—
	1,401,940	1,635,818

Note:

i) The Group measures the loss allowance for other receivables at an amount equal to 12-month ECL. The Group recognised 12-month ECL for other receivables based on the internal credit rating of receivables as follows:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Performing	0%	15,086	—
Doubtful	100%	6,166	6,166
		21,252	6,166

The movement in the loss allowance for other receivables is set out below:

	RMB'000
At 1 January 2018	—
Increase in loss allowance recognised in profit or loss during the year	6,166
At 31 December 2018	6,166

24. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

As at 31 December 2018, the gross amount of trade receivables arising from contracts with customers amounted to approximately RMB1,442,876,000 (2017: RMB1,613,147,000).

During the year ended 31 December 2017, the Group was subject to several factoring agreements (2018: nil) with banks under which the banks pay an amount net of discount to the Group and collect the factored trade receivable balances directly from the Group's customers. The costs of the factoring arrangement ranged from 2.1% to 3.3% (2018: nil) of the balance transferred and are included in "finance costs". The Group considered it had transferred the contractual rights to receive the cash flows of the trade receivables being factored and therefore recorded the transfers of trade receivables pursuant to the factoring agreements as sales. All of the factored trade receivables were accounted for as sales of trade receivables and derecognised upon transfer.

For the year ended 31 December 2017, the Group received proceeds of approximately RMB1,979,257,000 (2018: nil) from sales of trade receivables. The Group recognised discounts of approximately RMB39,278,000 (2018: nil) in finance costs for trade receivables sold to the banks for the year ended 31 December 2017.

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

	2018 RMB'000	2017 RMB'000
Within 1 month	550,838	1,306,185
1 to 2 months	272,136	148,432
2 to 3 months	243,456	18,830
Over 3 months	229,287	27,817
	1,295,717	1,501,264

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

	2017 RMB'000
Past due but not impaired:	
Less than 1 month past due	145,435

24. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

As at 31 December 2017, included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately RMB145,435,000 which were past due at the end of each reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and there is no recent history of default, therefore the amounts are considered recoverable. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

Since 1 January 2018, the Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Credit impaired receivables — Default	100.0%	86,771	86,771
Credit impaired receivables — Doubtful	75.0%	22,470	16,853
Other trade receivables aged:			
— Not yet dued	0.0%	1,114,051	—
— Past due 1–60 days	12.2%	128,748	15,712
— Past due over 60 days	66.4%	41,913	27,823
		1,393,953	147,159

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

	2018 RMB'000	2017 RMB'000
At the beginning of the year	111,883	90,204
Effect on adoption of HKFRS 9	—	N/A
Impairment loss recognised on trade receivables	35,276	21,679
At the end of the year	147,159	111,883

As at 31 December 2017, included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balance of approximately RMB111,883,000 due to long outstanding and unsatisfactory repayment record.

25. LOANS TO THIRD PARTIES

	RMB'000
At 1 January 2017	794,596
Additions (note i)	2,991,237
Repayments from borrowers (note ii)	(2,793,262)
Exchange adjustments	(50,013)
At 31 December 2017	942,558
Additions (note i)	1,255,530
Repayments from borrowers (note ii)	(1,691,152)
Exchange adjustments	35,246
At 31 December 2018	542,182

Notes:

(i) Included in the amount of additions during the year ended 31 December 2018, approximately of US$22,833,000 (equivalent to approximately RMB145,346,000) (2017: US$331,300,000 (equivalent to approximately RMB2,155,434,000)) represented the principal amount of loans made to Blueberry Capital Limited ("Blueberry Capital").

During the year ended 31 December 2018, the maximum outstanding amount of loans to Blueberry Capital is approximately US$22,833,000 (equivalent to approximately RMB145,346,000 (2017: US$288,566,000 (equivalent to approximately RMB1,877,408,000)). Further details are set out in the announcement of the Company dated 22 January 2018.

(ii) Included in the amount of repayments from borrowers during the year ended 31 December 2018, approximately of US$22,833,000 (equivalent to approximately RMB145,346,000) (2017: US$401,645,000 (equivalent to approximately RMB2,613,102,000)) represented the repayment of loans from Blueberry Capital.

	2018 RMB'000	2017 RMB'000
Unsecured loans	175,699	398,220
Secured loans	366,483	544,338
	542,182	942,558

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

25. LOANS TO THIRD PARTIES (Continued)

During the year ended 31 December 2018, in determining the expected credit losses for these assets, the directors of the Company have taken into account the historical default experience, the financial position of the counterparties, value of collateral as well as the future prospects of the industries in which the debtors operate obtained from independent valuation report, considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for loans to third parties.

As at 31 December 2018, the directors of the Company estimates the expected credit loss on loans to third parties was insignificant.

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

	2018 RMB'000	2017 RMB'000
Within 1 month	12,136	222,181
1 to 2 months	2,689	157,148
2 to 3 months	1,795	425,156
Over 3 months	525,562	138,073
	542,182	942,558

Loans to third parties carried effective interest at fixed rates ranging from 6% to 12% per annum (2017: 6% to 13% per annum) and floating rates ranging from 7% to 8% per annum (2017: 7% to 8% per annum).

26. AMOUNTS DUE FROM ASSOCIATES

The amounts are repayable on demand, non-interest bearing and secured by the trade receivables and inventories held by the associates.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Structure deposits managed by the bank in the PRC	191,830	–

The structure deposits managed by the bank in the PRC with underlying financial instrument mainly consist of the bank deposits and funds of the PRC.

The structure deposits carried floating interest rate at 2.9% per annum as at 31 December 2018.

28. SHORT-TERM BANK DEPOSITS, PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

Short-term bank deposits

Short-term deposits carried interest at a fixed interest rate of 3% per annum during the year ended 31 December 2018 (2017: 3%).

Pledged bank deposits

Pledged bank deposits represented deposits pledged to the bank to secure banking facilities granted to the Group. As at 31 December 2018, all bank deposits (2017: all) have been pledged by the Group to secure short-term bank loans (note 33) and was therefore classified as current assets. The pledged bank deposits carried interest at a fixed interest rate of 2.2% per annum during the year ended 31 December 2018 (2017: 2.1%).

Bank balances and cash

Bank balances carried interest at floating rates based on daily bank deposit rates which range from 0.2% to 1.2% per annum (2017: 0.2% to 1.2% per annum).

29. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	524,722	190,121
Accrued staff costs	12,064	13,140
Receipt in advance	—	3,591
Other payables	25,824	6,162
	562,610	213,014

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

	2018 RMB'000	2017 RMB'000
Within 1 month	283,703	156,907
1 to 3 months	133,464	27,575
Over 3 months	107,555	5,639
	524,722	190,121

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

30. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000
Sales of IC and other electronic components	2,292	3,591

Contract liabilities include advances received to deliver IC and other electronic components. The performance obligation would be satisfied upon the time of the delivery of IC and other electronic components.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is approximately RMB3,591,000. There was no revenue recognised during the year ended 31 December 2018 that related to performance obligations that were satisfied prior to 1 January 2018.

31. DEPOSITS FROM CUSTOMERS

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

32. AMOUNT DUE TO A RELATED PARTY

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

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

33. BANK LOANS

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

	2018 RMB'000	2017 RMB'000
Within one year	162,507	78,908
After one year but within two years	963,353	1,005,177
	1,125,860	1,084,085
Carrying amount of bank loans that are not repayable on demand or within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	963,353	1,005,177
Carrying amount repayable within one year	162,507	78,908
	1,125,860	1,084,085
Amount shown under current liabilities	(1,125,860)	(1,084,085)
Amount shown under non-current liabilities	–	–

a) At 31 December 2018, bank loans carried in LIBOR plus 1.4% to 2.4% (2017: HIBOR plus 1.8% to 3.6%) with an effective interest at floating rates ranging from 3.92% to 4.02% per annum (2017: 3.07% to 4.85% per annum).

b) At 31 December 2018, all banking facilities were secured by the Group's bank deposits of approximately RMB306,947,000 (2017: RMB184,770,000).

33. BANK LOANS (Continued)

c) Banking covenants

As of 31 December 2018, the banking facilities contain various covenants, including the Group's consolidated net borrowing ratio not exceeding 30% of consolidated tangible net worth and the Group maintaining a tangible net worth of not less than RMB1,200,000,000 (2017: RMB1,200,000,000). Other conditions include Mr. Kang, the controlling shareholder of the Company, remaining as the single largest shareholder of the Company and retaining at least 40% equity interest of the Company.

As of 31 December 2018, none of the covenants relating to the banking facilities had been breached (2017: nil).

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

d) The amounts of banking facilities and the utilisation at the end of the reporting period are set out as follows:

	2018 RMB'000	2017 RMB'000
Facility amount		
— expiring within one year	162,507	78,908
— expiring beyond one year	963,353	1,005,177
Total	1,125,860	1,084,085
Utilisations		
— expiring within one year:		
— Bank loans	162,507	78,908
— expiring beyond one year:		
— Bank loans	963,353	1,005,177
	1,125,860	1,084,085
Unused banking facilities	—	—

34. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Amortisation of intangible assets RMB'000
At 1 January 2017	8,959
Credited to profit of loss	(1,776)
Elimination on disposal of a subsidiary (note 42)	(6,240)
Exchange adjustments	(373)
At 31 December 2017	570
Acquisition of subsidiaries (note 41)	57,823
Credited to profit of loss	(252)
Exchange adjustments	316
At 31 December 2018	58,457

As at 31 December 2018, no deferred tax asset has been recognised in respect of unused tax losses of approximately RMB207,709,000 (2017: RMB95,141,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB18,907,000 (2017: RMB40,671,000) that will be expired within next five years. Other losses may be carried forward indefinitely.

As at 31 December 2018, the aggregate amount of temporary differences associated with the PRC subsidiary's undistributed retained earnings for which deferred tax liabilities have not been recognised from 1 January 2008 onwards were approximately RMB1,617,404,000 (2017: RMB1,397,820,000). Deferred tax liabilities of approximately RMB80,870,000 (2017: RMB69,891,000) have not been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not be reversed in the foreseeable future.

35. SHARE CAPITAL

	Number of shares	Amount in original currency	Shown in the consolidated financial statements
		US$	RMB'000
Ordinary shares of US$0.0000001 each			
Authorised:			
At 1 January 2017, 31 December 2017 and 31 December 2018	500,000,000,000	50,000	N/A
Issued and fully paid:			
At 1 January 2017	1,501,272,732	150	1
Cancellation of repurchased shares (notes i and ii)	(29,996,000)	(3)	—
At 31 December 2017	1,471,276,732	147	1
Issue of new shares (note iv)	10,200,000	1	—
Cancellation of repurchased shares (note v)	(4,336,000)	—	—
At 31 December 2018	1,477,140,732	148	1

Notes:

(i) During the year ended 31 December 2016, the Company repurchased 39,179,000 shares. Of the 39,179,000 shares, 17,769,000 shares were cancelled during the year ended 31 December 2017.

(ii) During the year ended 31 December 2017, the Company repurchased its own shares through the SEHK as follows:

Month	Number of ordinary shares of US$0.0000001 each	Price per share Highest	Price per share Lowest	Aggregate amount paid
		HK$	HK$	HK$'000
January 2017	1,215,000	11.70	10.32	13,374
February 2017	668,000	10.78	10.30	7,008
May 2017	10,344,000	10.40	7.67	97,417
	12,227,000			117,799

All of the above shares were cancelled as at 31 December 2017. The issued share capital of the Company was reduced by the nominal value of US$1.22. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of US$1.22 (equivalent to RMB8.28) was transferred from the share capital to the share premium. The premium paid on the repurchase of the shares of HK$117,799,000 (equivalent to approximately to RMB105,508,000) was charged to share premium.

35. SHARE CAPITAL (Continued)

Notes: (Continued)

(iii) During the year ended 31 December 2017, the Company repurchased its own shares through the SEHK for the RSU scheme as follows:

Month	Number of ordinary shares of US$0.0000001 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate amount paid HK$'000
January 2017	1,250,000	11.05	10.73	13,631
February 2017	500,000	10.90	10.77	5,425
May 2017	500,000	9.78	9.78	4,892
	2,250,000			23,948

These repurchased shares were held by the RSU Scheme trustee for the purpose of the RSU Scheme (note 40). The consideration paid on the repurchase of the shares of HK$23,948,000 (equivalent to approximately RMB21,127,000) is presented as shares held for the RSU Scheme in the consolidated statement of changes in equity and deducted from Shares held for the RSU scheme.

(iv) On 18 December 2018, an additional 10,200,000 new shares of HK$2.89 (equivalent to RMB2.54) per share were issued by the Company under the RSU Scheme in order to satisfy the grant of shares under the RSU scheme.

(v) During the year ended 31 December 2018, the Company repurchased its own shares through the SEHK as follows:

Month	Number of ordinary shares of US$0.0000001 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate amount paid HK$'000
March 2018	731,000	4.05	3.99	2,928
April 2018	1,265,000	4.03	3.64	4,959
July 2018	2,340,000	3.19	2.97	7,182
December 2018	231,000	2.63	2.52	599
	4,567,000			15,668

Of the 4,567,000 shares repurchased, 4,336,000 shares were cancelled as at 31 December 2018, and the remaining 231,000 shares were cancelled after the end of the reporting period. The issued share capital of the Company was reduced by the nominal value of US$0.43. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of US$0.43 (equivalent to RMB2.84) was transferred from the share capital to the share premium. The premium paid on the repurchase of the shares of HK$15,668,000 (equivalent to approximately to approximately RMB13,755,000) was charged to share premium.

35. SHARE CAPITAL (Continued)

Notes: (Continued)

(vi) During the year ended 31 December 2018, the Company repurchased its own shares through the SEHK for the RSU scheme as follows:

Month	Number of ordinary shares of US$0.0000001 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate amount paid HK$'000
September 2018	3,700,000	2.94	2.63	10,215
October 2018	4,700,000	2.98	2.54	13,070
	8,400,000			23,285

These repurchased shares were held by the RSU Scheme trustee for the purpose of the RSU Scheme (note 40). The consideration paid on the repurchase of the shares of HK$23,285,000 (equivalent to approximately RMB20,404,000) is presented as shares held for the RSU Scheme in the consolidated statement of changes in equity and deducted from Shares held for the RSU scheme.

(vii) For the year ended 31 December 2018, 4,105,000 units of RSUs (2017: 7,605,000 units) were vested to the beneficiaries, and approximately RMB26,131,000 (2017: RMB37,827,000) were credited to the shares held for RSU scheme.

The remaining shares are held on trust by the RSU Scheme trustee until their release to the beneficiaries upon the vesting of the RSUs (see note 40).

36. OPERATING LEASE COMMITMENT

The Group as lessee

Operating lease payments represent rentals payable by the Group for its office premises and warehouses. Leases are negotiated for terms of one to three years (2017: one to five years) and rentals are fixed for an average of two years (2017: two years).

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

	2018 RMB'000	2017 RMB'000
Within one year	10,416	7,374
In the second to fifth years inclusive	14,628	2,227
	25,044	9,601

37. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Company issued several guarantees to banks in respect of the banking facilities granted to subsidiaries of the Company. The maximum liability of the Company at the end of the reporting period under these guarantees issued is the outstanding amount of the bank loans drawn down by the subsidiaries (see note 33). As at 31 December 2018 and 2017, management of the Company did not consider it is probable that a claim will be made against the Company under any of the guarantees. In the opinion of the directors of the Company, the fair value of financial guarantee is insignificant.

38. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related party during the year as follows:

Related party	Nature of transaction	2018 RMB'000	2017 RMB'000
Zim HK	Interest income received (note i)	19,186	13,310
Comtech Industrial (Hong Kong) Limited ("Comtech Industrial")	Interest income received (note ii)	805	—
Shanghai KMT Auto	Interest income received (note iii)	955	—
Comtech Small Loan Company Limited ("Comtech Small Loan")* 深圳市科通小額貸款有限責任公司	Agency services, administrative and consultancy services fee income received (note iv)	11,727	8,935
Comtech Communication Technology (Shenzhen) Company Limited ("CCT Shenzhen")* 科通通信技術(深圳)有限公司	Rental expenses paid	2,383	—

* For identification purpose only

38. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes:

(i) Interest income received from Zim HK

During the year ended 31 December 2018, the Group has provided loans in aggregate of US$65,053,000 (equivalent to approximately RMB429,938,000) (2017: US$19,922,000, equivalent to approximately RMB125,061,000) to an associate of the Group, at an interest rate range from 9% to 9.72% (2017: 7% to 9.72%) for the purpose of supply chain financing.

(ii) Interest income received from Comtech Industrial

During the year ended 31 December 2018, the Group has provided loans in aggregate of US$5,815,000 (equivalent to approximately RMB38,432,000) (2017: nil) to an associate of the Group, at an interest rate range at 6% (2017: nil) for the purpose of supply chain financing.

(iii) Interest income received from Shanghai KMT Auto

During the year ended 31 December 2018, the Group has provided loans in aggregate of US$4,561,000 (equivalent to approximately RMB30,144,000) (2017: nil) to an associate of the Group, at an interest rate range at 6% (2017: nil) for the purpose of supply chain financing.

(iv) Agency services, administrative and consultancy services fee income received from Comtech Small Loan (included in revenue)

On December 11, 2015, the Group entered into a series of agreements, including Purchase Option Agreement, Agency Agreement and Service Agreement, with CCT Shenzhen and Comtech Small Loan, a subsidiary of CCT Shenzhen. CCT Shenzhen is a limited liability company incorporated on 23 July 2002 in the PRC and owned by Mr. Kang, the director of the Group. Comtech Small Loan is a limited liability company incorporated on 22 November 2015 and holds a small loan license that allows it to provide financing to small enterprises, individual entrepreneurs and individuals in the PRC. The main purpose of such arrangements is to provide the Group's supply chain customers access to financing in the PRC from Comtech Small Loan.

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

Under the Purchase Option Agreement, the Group may transfer up to an aggregate of RMB200,000,000 to CCT Shenzhen within three years from 11 December 2015 as advance payment for the purchase of the equity interest in Comtech Small Loan (such sum will be deducted from the total consideration payable when the option to acquire the entire or part of the equity interest of Comtech Small Loan is exercised). The advance payment is not interest-bearing and does not constitute an exercise of the option by the Purchaser. During the years ended 31 December 2018 and 2017, no advance payment has been made.

On 6 June 2018, the Company made an announcement on "Continuing Connected Transactions — New Agency Agreement and New Service Agreement". According to the announcement, the Company announced that, on 8 June 2018, it entered a new agency agreement and new service agreement dated 8 January 2018 with a period of three years commencing on 1 January 2018 (the "New Agency Agreement and New Service Agreement"). The New Agency Agreement and New Service Agreement agreed upon new maximum annual amounts of agency fee income and service fee income.

38. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(iv) Agency services, administrative and consultancy services fee income received from Comtech Small Loan (included in revenue) (Continued)

Pursuant to the New Agency Agreement signed with CCT Shenzhen, the Group would provide customers referral service for a service fee amounting to 80% of the fees and interest receivables introduced by Comtech Small Loan to the referred customers. As at 31 December 2018, RMB12,315,000 borrowings (2017: RMB11,131,000) were extended to customers referred by the Group to Comtech Small Loan and service fee earned by the Group for the year ended 31 December 2018 amounted to approximately RMB9,852,000 (2017: approximately RMB8,905,000) under the New Agency Agreement.

Pursuant to the New Service Agreement signed with CCT Shenzhen, the Group would also provide administrative and consultancy services to Comtech Small Loan at the prevailing market rate of comparable services and amounting to no more than 1% of Comtech Small Loan's yearly turnover will be received by the Group. Service fee earned by the Group from provision of administrative and consultancy services to Comtech Small Loan for the year ended 31 December 2018 amounted to approximately RMB1,875,000 (2017: RMB30,000) under the New Service Agreement.

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

(b) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management personnel during the year was as follows:

	2018 RMB'000	2017 RMB'000
Short-term benefits	10,816	6,601
Post-employment benefits	164	230
Share-based compensation expenses	2,801	1,812
	13,781	8,643

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. RETIREMENT BENEFIT SCHEME

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2018, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB21,961,000 (2017: RMB22,676,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

40. SHARE-BASED PAYMENT TRANSACTIONS

RSU scheme of the Company

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

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

On 1 February 2017, the Company granted an additional 6,000,000 RSUs to employees of the Company and its subsidiaries under the RSU Scheme. Shares repurchased by the Company on the Stock Exchange were held by the RSU Scheme trustee for the purpose of the RSU Scheme.

On 23 November 2018, the Company granted an additional 10,200,000 RSUs to employees of the Company and its subsidiaries under the RSU Scheme. Shares repurchased by the Company on the Stock Exchange were held by the RSU Scheme trustee for the purpose of the RSU Scheme.

40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

RSU scheme of the Company (Continued)

Equity-settled share-based compensation expenses of approximately RMB21,496,000 were recognised as staff costs in profit or loss for the year ended 31 December 2018 (2017: approximately RMB44,581,000) and the remaining balance is to be recognised in 2019 and 2020 based on the respective vesting periods.

(a) Details of the terms and conditions of the grant of RSUs are as follows:

	Number of RSUs	Fair value as at grant date: Per share	Fair value as at grant date: Aggregate amount	Vesting conditions
		RMB	RMB'000	
RSUs granted to directors:				
— on 1 March 2014	3,600,000	1.72	6,192	Notes (i), (iii)
RSUs granted to employees:				
— on 1 March 2014	19,346,300	1.72	33,276	Notes (i), (iii)
— on 1 March 2014	7,253,700	1.72	12,476	Notes (ii), (iii)
— on 8 July 2015	17,940,000	3.89	69,787	Notes (iv), (v)
— on 1 February 2017	6,000,000	9.37	56,220	Notes (vi), (vii)
— on 23 November 2018	10,200,000	2.56	26,112	Notes (viii), (ix)
Total RSUs granted	64,340,000			

Notes:

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

- One-third of which have vested for the year ended 31 December 2014 in equal quarterly installments.
- One-third of which have vested for the year ended 31 December 2015 in equal quarterly installments.
- One-third of which have vested for the year ended 31 December 2016 in equal quarterly installments.

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

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

40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

RSU scheme of the Company (Continued)

(a) Details of the terms and conditions of the grant of RSUs are as follows: (Continued)

Notes: (Continued)

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

— One-third of which have vested for the 12 months ended 7 July 2016 in equal quarterly installments.

— One-third of which have vested for the 12 months ended 7 July 2017 in equal quarterly installments.

— One-third of which have vested for the 12 months ended 7 July 2018 in equal quarterly installments.

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

(vi) The RSUs granted have a vesting period of three years as follows:

— One-third of which will vest for the 12 months ended 31 January 2018 in equal quarterly installments.

— One-third of which will vest for the 12 months ended 31 January 2019 in equal quarterly installments.

— One-third of which will vest for the 12 months ended 31 January 2020 in equal quarterly installments.

(vii) Employees who leave the Group before 31 January 2020 forfeit their right to any unvested RSUs.

(viii) The RSUs granted have a vesting period of three years as follows:

— One-third of which will vest for the 12 months ended 22 November 2019 in equal quarterly installments.

— One-third of which will vest for the 12 months ended 22 November 2020 in equal quarterly installments.

— One-third of which will vest for the 12 months ended 22 November 2021 in equal quarterly installments.

(ix) Employees who leave the Group before 22 November 2021 forfeit their right to any unvested RSUs.

(b) The movement of the grant of RSUs during the year are as follows:

	Number of RSUs	
	2018	2017
Outstanding as at 1 January	6,945,000	9,555,000
Granted during the year	10,200,000	6,000,000
Vested during the year	(4,105,000)	(7,605,000)
Forfeited during the year	(640,000)	(1,005,000)
Outstanding as at 31 December	12,400,000	6,945,000

40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

RSU scheme of the Company (Continued)

(c) Fair value of RSUs and assumptions

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

Fair value of RSUs and assumptions	
Discount rate	17.5%
Risk-free interest rate	3.265%
Volatility	16.0%
Dividend yield	0.0%

The fair value of RSUs granted on 8 July 2015, 1 February 2017 and 23 November 2018 were measured by the quoted market price of the Company's shares at the grant date, being HK$4.91 per share, HK$10.56 per share and HK$2.89 per share, respectively.

41. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2018

Risingnovas Group

On 19 December 2018, the Group acquired 100% of the issued share capital of Risingnovas Holdings Limited ("Risingnovas") and its subsidiary, Risingnovas (HK) Limited, (collectively referred to as "Risingnovas Group") for consideration of US$10,870,000 (equivalent to approximately RMB74,737,000). This acquisition has been accounted for using the acquisition method. The principal activities of Risingnovas Group are the distribution and sales of electronic components. Risingnovas Group was acquired so as to continue the expansion of the Group's Ingdan Incubator business.

Consideration transferred

	RMB'000
Cash	74,737

Acquisition-related costs amounting to RMB26,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

41. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

Risingnovas Group (Continued)

Assets acquired and liabilities recognised as at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	57
Intangible assets	62,079
Inventories	5,313
Trade and other receivables	5,003
Cash and cash equivalents	9,585
Trade and other payables	(44,778)
Deferred tax liabilities	(6,285)
	30,974

The fair value of trade and other receivables at the date of acquisition amounted to approximately RMB5,003,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately RMB5,003,000 at the date of acquisition.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	74,737
Less: net asset acquired	(30,974)
Goodwill arising on acquisition	43,763

Net cash outflow on acquisition of Risingnovas

	RMB'000
Cash consideration paid	74,737
Less: cash and cash equivalent balances acquired	(9,585)
	65,152

41. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

Risingnovas Group (Continued)

Included in the profit for the year is a loss of approximately RMB1,803,000 attributable to the additional business generated by Risingnovas Group. Revenue for the year includes approximately RMB27,000 generated from Risingnovas Group.

New United Group

On 21 December 2018, the Group acquired 51% of the issued share capital of New United Holdings Limited ("New United") and its subsidiary, Cogolink Technology Limited, (collectively referred to as "New United Group") for consideration of US$25,300,000 (equivalent to approximately RMB173,950,000). This acquisition has been accounted for using the acquisition method. The principal activities of New United Group are the distribution and sales of other electronic components. New United Group was acquired so as to continue the expansion of the Group's Ingdan Incubator business.

Consideration transferred

	RMB'000
Cash	173,950

Acquisition-related costs amounting to RMB60,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised as at the date of acquisition are as follows:

	RMB'000
Intangible assets	217,496
Cash and cash equivalents	1
Trade and other payables	(54,511)
Deferred tax liabilities	(28,859)
	134,127

41. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

New United Group (Continued)

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	173,950
Plus: non-controlling interests (49% in New United)	65,723
Less: net asset acquired	(134,127)
Goodwill arising on acquisition	105,546

The non-controlling interests (49%) in New United recognised at the acquisition date was measured at their proportionate share of net assets acquired and amounted to approximately RMB65,723,000.

Net cash outflow on acquisition of New United

	RMB'000
Cash consideration paid	173,950
Less: cash and cash equivalent balances acquired	(1)
	173,949

Included in the profit for the year is a loss of approximately RMB276,000 attributable to the additional business generated by New United Group. No revenue for the year was generated from New United Group.

Heicolink Group

On 24 December 2018, the Group acquired 53% of the issued share capital of Heicolink Holdings Limited ("Heicolink") and its subsidiary, Heicolink Technology (Hong Kong) Limited, (collectively referred to as "Heicolink Group") for consideration of approximately US$27,065,000 (equivalent to approximately RMB186,087,000). This acquisition has been accounted for using the acquisition method. The principal activities of Heicolink Group are the distribution and sales of other electronic components. Heicolink Group was acquired so as to continue the expansion of the Group's Ingdan Incubator business.

41. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

Heicolink Group (Continued)

Consideration transferred

	RMB'000
Cash	186,087

Acquisition-related costs amounting to RMB65,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised as at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	70
Intangible assets	172,047
Inventories	5,917
Trade, bills and other receivables	21,039
Cash and cash equivalents	4,118
Trade and other payables	(58,664)
Income tax payable	(2)
Deferred tax liabilities	(22,679)
	121,846

The fair value of trade, bills and other receivables at the date of acquisition amounted to approximately RMB21,039,000. The gross contractual amounts of those trade, bills and other receivables acquired amounted to approximately RMB21,039,000 at the date of acquisition.

41. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

Heicolink Group (Continued)

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	186,087
Plus: non-controlling interests (47% in Heicolink)	57,268
Less: net asset acquired	(121,846)
Goodwill arising on acquisition	121,509

The non-controlling interests (47%) in Heicolink recognised at the acquisition date was measured at their proportionate share of net assets acquired and amounted to approximately RMB57,268,000.

Net cash outflow on acquisition of Heicolink

	RMB'000
Cash consideration paid	186,087
Less: cash and cash equivalent balances acquired	(4,118)
	181,969

Included in the profit for the year is approximately RMB256,000 attributable to the additional business generated by Heicolink Group. Revenue for the year includes approximately RMB825,000 generated from Heicolink Group.

Had the acquisitions of Risingnovas Group, New United Group and Heicolink Group been completed on 1 January 2018, total revenue of the Group for the year would have been approximately RMB113,113,000, and profit for the year would have been a loss of approximately RMB9,781,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

Goodwill arose in the acquisitions of Risingnovas Group, New United Group and Heicolink Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Group, New United Group and Heicolink Group respectively. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

42. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2017

On 12 July 2017, the Group disposed 51% of the entire share capital of World Style Group, at a cash consideration of approximately RMB55,500,000, to an independent third party. The net assets of World Style Group at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash	55,500

Analysis of assets and liabilities over which control was lost:

	RMB'000
Goodwill	19,326
Property, plant and equipment	42
Intangible assets	37,820
Inventories	32,694
Trade, bills and other receivables	225,856
Cash and cash equivalents	11,642
Trade and other payables	(209,392)
Income tax payables	(9,778)
Deferred tax liabilities	(6,240)
Net assets disposed of	101,970

Gain on disposal of subsidiaries:

	RMB'000
Consideration received	55,500
Net assets disposed of	(101,970)
Waive of consideration payable (note 32)	18,589
Non-controlling interests	53,604
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	770
Gain on disposal	26,493

42. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

An analysis of the net cash inflow in respect of the disposal of World Style Group is as follows:

	RMB'000
Cash received	55,500
Less: bank balances and cash disposed of	(11,642)
	43,858

Included in the Group's profit for the year ended 31 December 2017 is approximately RMB11,520,000 attributable to the disposed business contributed by World Style Group. The Group's revenue for the year includes approximately RMB541,993,000 generated from World Style Group.

During the year ended 31 December 2017, World Style Group contributed approximately RMB4,064,000 to the Group's net operating cash inflow and nil to the Group's net cash flow in investing activities and financing activities. The carrying amounts of assets and liabilities of World Style Group at the date of disposal are approximately RMB270,234,000 and RMB219,170,000 respectively.

43. CHANGE IN OWNERSHIP INTERESTS

a) Share transfer of equity interests in a indirect wholly-owned subsidiary of the Company and acquisition of subsidiaries

On 18 January 2018, Cogobuy Group, Inc. ("CGI"), the wholly-owned subsidiary of the Company, entered an agreement with Rich Wisdom Ventures Limited ("RWV"), an independent third party, that CGI agreed to sell and RWV agreed to purchase 30% of the issued share capital of Mega Smart Group Limited, a wholly-owned subsidiary of CGI (the "Share Transfer Agreement"). In accordance with the share transfer agreement, the consideration is the entire 100% holding interest, held by RWV, in Shanghai KMT and its wholly owned subsidiary, Shanghai KMT Auto (the "Share Transfer Transaction").

On 9 March 2018, Mega Smart Group Limited has changed its name as EZ Robot, Inc ("EZ Robot").

The principal activity of EZ Robot was investment holding, while the principal activities of Shanghai KMT and Shanghai KMT Auto were engaged in the development and sales of electronic, automation and related products.

Upon the completion of the Share Transfer Transaction on 12 March 2018, the Group's interest in EZ Robot has been changed from 100% to 70%. At the same time, this resulted in an acquisition of the net assets of Shanghai KMT and Shanghai KMT Auto of which has been accounted for using the acquisition method.

43. CHANGE IN OWNERSHIP INTERESTS (Continued)

a) Share transfer of equity interests in a indirect wholly-owned subsidiary of the Company and acquisition of subsidiaries (Continued)

The fair values of the identifiable assets acquired and liabilities recognised of Shanghai KMT and Shanghai KMT Auto upon the completion of the Share Transfer Transaction were as follows:

	RMB'000
Property, plant and equipment	532
Intangible assets	114,547
Inventories	10,867
Trade, bills and other receivables	234,980
Cash and cash equivalents	9,953
Trade and other payables	(300,879)
	70,000

Upon the date of completion of Share Transfer Transaction, this resulted in an increased in non-controlling interests of approximately RMB4,950,000 and an increase in equity attributable to owners of the Company of approximately RMB65,050,000. The non-controlling interests in EZ Robot and its subsidiaries (collectively referred to as "EZ Robot Group") was measured by reference to the proportionate share of the net assets of EZ Robot Group. A schedule of the effect of the Share Transfer Transaction is as follow:

	RMB'000
Carrying amount of the interest of non-controlling interest upon acquisition	(4,950)
Value of consideration shares	70,000
Difference recognised in other reserve within equity	65,050

The value of the consideration shares was reference to the fair value of EZ Robot Group on the date of Share Transfer Transaction which was performed by an independent valuation firm, Trinity Corporate Finance Limited.

43. CHANGE IN OWNERSHIP INTERESTS (Continued)

a) Share transfer of equity interests in a indirect wholly-owned subsidiary of the Company and acquisition of subsidiaries (Continued)

An analysis of the net cash inflow in respect of the Share Transfer Transaction is as follows:

	RMB'000
Cash consideration paid	—
Less: cash and cash equivalent balance acquired	(9,953)
	9,953

b) Disposal of EZ Robot Group

On 18 January 2018, CGI also entered a shareholder agreement with RWV that CGI agreed to grant an option to RWV to acquire further 60% of the issued share capital of EZ Robot. from CGI with the consideration of not less than HK$6,874 per share and not less the price offered by other third party bidders ("pre-emptive arrangement") within 12 months after the completion of the Share Transfer Transaction.

On 25 June 2018, RWV exercised such option to acquire additional 21% of the issued share capital of EZ Robot from CGI with a consideration of HK$8,249 per share. Since then, CGI remains 49% of total issued share capital of EZ Robot. The total cash consideration was HK$123,735,000 (equivalent to approximately RMB104,308,000). Finally, the Group lose the control over EZ Robot Group and the EZ Robot Group became an associate of the Group.

The net assets of EZ Robot Group at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash	104,308

43. CHANGE IN OWNERSHIP INTERESTS (Continued)

b) Disposal of EZ Robot Group (Continued)

Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	465
Intangible assets	114,547
Trade, bills and other receivables	490,677
Cash and cash equivalents	143,537
Trade and other payables	(55,356)
Amounts due to related companies	(644,440)
Income tax payables	(9,536)
Net assets disposed of	39,894
Less: Non-controlling interest	(11,968)
	27,926

Gain on disposal of EZ Robot Group:

	RMB'000
Consideration received	104,308
Net assets disposed of	(39,894)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiaries	(1,686)
Non-controlling interests	11,968
	74,696
Fair value of interest in associates retained on loss of control of the subsidiaries	135,407
Waiver of intercompany balances (note)	(28,316)
Gain on disposal	181,787

Note: The fair value of amounts due to related companies at the date of disposal amounted to approximately RMB616,124,000. The gross contractual amount of amounts due to related companies disposed amounted to approximately RMB644,440,000 at the date of disposal. The best estimate at disposal date of the contractual cash flows not expected to be collected amounted to approximately RMB28,316,000.

43. CHANGE IN OWNERSHIP INTERESTS (Continued)

b) Disposal of EZ Robot Group (Continued)

An analysis of the net cash outflow in respect of the disposal of EZ Robot Group is as follows:

	RMB'000
Cash consideration	104,308
Less: bank balances and cash disposed of	(143,537)
	(39,229)

Included in the Group's profit for the year is approximately RMB23,131,000 attributable to the disposed business generated by EZ Robot Group. The Group's revenue for the year includes approximately RMB627,475,000 generated from EZ Robot Group.

During the year, EZ Robot Group contributed approximately RMB27,323,000 to the Group's net operating cash inflow, contributed approximately RMB1,003,000 in respect of investing activities and nil in respect of financing activities.

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Accrued interest payable RMB'000 (note 29)	Bank loans RMB'000 (note 33)	Total RMB'000
At 1 January 2018	—	1,084,085	1,084,085
Financing cash flows:			
— Addition	—	359,555	359,555
— Repayment	(47,749)	(363,218)	(410,967)
Non-cash changes:			
— Accrued interest	47,749	—	47,749
— Exchange realignment	—	45,438	45,438
At 31 December 2018	—	1,125,860	1,125,860

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Amount due to a related party RMB'000	Accrued interest payable RMB'000 (note 29)	Bank loans RMB'000 (note 33)	Dividend payable RMB'000	Total RMB'000
At 1 January 2017	38,985	—	3,797,382	—	3,836,367
Operating cash flows:					
— Decrease in bank loans used for Ingfin Financing Services	—	—	(258,788)	—	(258,788)
Financing cash flows:					
— Addition	—	—	1,077,721	—	1,077,721
— Repayment	(20,864)	(109,131)	(3,293,219)	(62,467)	(3,485,681)
Non-cash changes:					
— Accrued interest	—	109,131	—	—	109,131
— Waive of consideration payable (note 42)	(18,589)	—	—	—	(18,589)
— Dividend declared	—	—	—	62,467	62,467
— Exchange realignment	468	—	(239,011)	—	(238,543)
At 31 December 2017	—	—	1,084,085	—	1,084,085

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

	Note	2018 RMB'000	2017 RMB'000
Non-current asset			
Interests in subsidiaries		2,125,472	2,183,128
Current assets			
Deposits, prepayments and other receivables		144,741	96,219
Cash and cash equivalents		5,068	19,123
		149,809	115,342
Current liabilities			
Trade and other payables		13,696	9,224
Amounts due to subsidiaries		9,884	1,046
		23,580	10,270
Net current assets		126,229	105,072
Net assets		2,251,701	2,288,200
Capital and reserves			
Share capital		1	1
Reserves	(a)	2,251,700	2,288,199
		2,251,701	2,288,200

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note (a):

Movements in reserves

	Share premium RMB'000	Capital Reserve RMB'000	Share-based compensation reserve RMB'000	Other reserve RMB'000 (note i)	Shares held for the RSU Scheme RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	2,270,025	18,923	30,539	186,196	(92,021)	41,221	(166,684)	2,288,199
Loss for the year	–	–	–	–	–	–	(6,584)	(6,584)
Other comprehensive expenses								
Exchange difference arising on translation of financial statements from function currency to presentation currency	–	–	–	–	–	(17,252)	–	(17,252)
Total comprehensive expense for the year	–	–	–	–	–	(17,252)	(6,584)	(23,836)
Equity-settled share-based compensation expenses (note 40)	–	–	21,496	–	–	–	–	21,496
Repurchase and cancellation of own shares (note 35(v))	(13,755)	–	–	–	–	–	–	(13,755)
Repurchase shares for RSU scheme (note 35(vi))	–	–	–	–	(20,404)	–	–	(20,404)
Issue of shares under RSU scheme (note 35(vii))	–	–	(26,131)	–	26,131	–	–	–
At 31 December 2018	2,256,270	18,923	25,904	186,196	(86,294)	23,969	(173,268)	2,251,700

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note (a): (continued)

Movements in reserves (Continued)

	For the year ended 31 December 2017							
	Share premium RMB'000	Capital Reserve RMB'000	Share-based compensation reserve RMB'000	Other reserve RMB'000 (note i)	Shares held for the RSU Scheme RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	2,375,533	18,923	23,785	186,196	(108,721)	204,946	(180,066)	2,520,596
Loss for the year	—	—	—	—	—	—	75,849	75,849
Other comprehensive income								
Exchange difference arising on translating on foreign operations	—	—	—	—	—	(163,725)	—	(163,725)
Total comprehensive (expense) income for the year	—	—	—	—	—	(163,725)	75,849	(87,876)
Issue of shares under the RSU Scheme (note 35(vii))	—	—	(37,827)	—	37,827	—	—	—
Equity-settled share-based compensation expenses (note 40)	—	—	44,581	—	—	—	—	44,581
Interim dividends paid (note 15)	—	—	—	—	—	—	(62,467)	(62,467)
Repurchase and cancellation of own shares (note 35(ii))	(105,508)	—	—	—	—	—	—	(105,508)
Purchase of shares held for the RSU Scheme (note 35(iii))	—	—	—	—	(21,127)	—	—	(21,127)
At 31 December 2017	2,270,025	18,923	30,539	186,196	(92,021)	41,221	(166,684)	2,288,199

(i) Other reserve

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

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The below table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Name of subsidiary (note i)	Place of incorporation/ establishment and operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest and voting power attributable to the Company Direct 2018	Direct 2017	Indirect 2018	Indirect 2017	Principal activities
Comtech Broadband Corporation Limited ("Comtech Boardband")	Hong Kong	Ordinary	HK$2,000,000	–	–	70%	70%	Sales of electronics components and related products
Comtech Digital HK	Hong Kong	Ordinary	HK$10,000	–	–	100%	100%	Sales of electronics components and related products
Comtech Digital Technology (Shenzhen) Limited* 科通數字技術(深圳)有限公司	PRC	Contributed capital	US$300,000	–	–	100%	100%	Sales of electronics components and related products
Comtech Industrial (Hong Kong) Limited	Hong Kong	Ordinary	HK$10,000	–	–	– (note ii)	100%	Sales of electronics components and related products
Comtech Industrial Technology (Shenzhen) Company Limited* 科通工業技術(深圳)有限公司	PRC	Contributed capital	US$500,000	–	–	100%	100%	Provision of media communication and collaboration platforms and solutions
Comtech International (Hong Kong) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Sales of electronics components and related products

* For identification purpose only

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary (note i)	Place of incorporation/ establishment and operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest and voting power attributable to the Company: Direct 2018	Direct 2017	Indirect 2018	Indirect 2017	Principal activities
Cogobuy Limited	Hong Kong	Ordinary	HK$1	–	–	100%	100%	Investment holding
Cogobuy.com E-Commerce Services (Shenzhen) Limited* 庫購網電子商務(深圳)有限公司 ("Cogobuy E-commerce") (note iii)	PRC	Contributed capital	HK$150,000	–	–	100%	100%	Development of ecommerce software technology and provision of ecommerce services
FOXSAAS Shenzhen	PRC	Contributed capital	US$300,000	–	–	100%	100%	Development and sales of electronic communication products
INGDAN.com Limited	Hong Kong	Ordinary	HK$1	–	–	70%	70%	Operate the ingdan.com platform
Ingdan Technology (Hong Kong) Limited	Hong Kong	Ordinary	US$100,000	–	–	70%	70%	Sales of electronics components and related products
INGDAN.com (Shenzhen) Limited* 硬蛋科技(深圳)有限公司 ("Ingdan Shenzhen")	PRC	Contributed capital	US$1,500,000	–	–	70%	70%	Sales of electronics components and related products
Hong Kong JJT Limited	Hong Kong	Ordinary	HK$1	–	–	70%	70%	Investment holding
Hardeggs Holdings Limited	BVI	Ordinary	US$1	–	–	70%	70%	Investment holding
Shenzhen Cogobuy (note iii)	PRC	Contributed capital	RMB1,000,000	–	–	100%	100%	Holder of the ICP license in the PRC
Qianhai Cogobuy	PRC	Contributed capital	HK$200,000,000	–	–	100%	100%	Sales of electronic components and related products

* For identification purpose only

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary (note i)	Place of incorporation/ establishment and operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest and voting power attributable to the Company Direct 2018	Direct 2017	Indirect 2018	Indirect 2017	Principal activities
Cogobuy Finance Limited	Hong Kong	Ordinary	HK$1	–	–	100%	100%	Provision of supply chain financing services in Hong Kong
Risingnovas (HK) Limited	Hong Kong	Ordinary	US$5,000,000	–	–	100% (note iv)	N/A	Sales of electronic components and related products
Cogolink Technology Limited	Hong Kong	Ordinary	HK$3,500,000	–	–	51% (note v)	N/A	Sales of electronic components and related products
Heicolink Technology (Hong Kong) Limited	Hong Kong	Ordinary	HK$10,000	–	–	53% (note vi)	N/A	Sales of electronic components and related products

Notes:

(i) The nature of all the legal entities established in PRC is limited liability company.

(ii) The subsidiary was disposed on 25 June 2018. Details are set out in note 43(b).

(iii) Cogobuy E-commerce, the Company's wholly-owned subsidiary, entered into a series of contractual arrangement ("Contractual Arrangements") with Shenzhen Cogobuy, wholly-owned by the Group, and Ms. Yao Yi which enable Cogobuy Ecommerce to:

— exercise effective financial and operational control over Shenzhen Cogobuy;

— exercise equity shareholders' voting rights of Shenzhen Cogobuy;

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

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

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

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

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Notes: (Continued)

(iii) (Continued)

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

(iv) The subsidiary was acquired on 19 December 2018. Details are set out in note 41.

(v) The subsidiary was acquired on 21 December 2018. Details are set out in note 41.

(vi) The subsidiary was acquired on 24 December 2018. Details are set out in note 41.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries engage in investment holding and inactive. The aggregation shown below based on the geographical location and nature of business. A summary of these subsidiaries are set out as follows:

Principal activities	Place of incorporation or registration/operations	Number of subsidiaries	
		2018	2017
Investment holding	Cayman Islands	1	1
	BVI	11	11
	Hong Kong	1	1
Inactive	PRC	8	7
	Hong Kong	5	5
	Singapore	2	2
	Italy	1	1
	Japan	—	1
	Israel	1	1
	United States of America	1	1

None of the subsidiaries had issued any debt securities outstanding at the end of both years or at any time during both years.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Details of subsidiaries that have non-controlling interests that are material to the Group:

Name of subsidiary	Place of incorporation	Proportion of ownership interest and voting rights held by non-controlling interest		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017	2018	2017
				RMB'000	RMB'000	RMB'000	RMB'000
Comtech Broadband	Hong Kong	30%	30%	(874)	(15,872)	4,832	5,446
Ingdan Shenzhen	PRC	30%	30%	2,580	10,302	23,342	20,761

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Comtech Broadband

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets	426,120	296,218
Non-current assets	43	48
Current liabilities	(410,055)	(278,113)
Net assets	16,108	18,153
Non-controlling interests	4,832	5,446

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Comtech Broadband (Continued)

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	241,676	2,758,764
Expenses	(244,588)	(2,811,671)
Loss for the year	(2,912)	(52,907)
Loss attributable to owners of the Company	(2,038)	(37,035)
Loss attributable to the non-controlling interests	(874)	(15,872)
Loss for the year	(2,912)	(52,907)
Other comprehensive income (expense) attributable to owners of the Company	607	(2,171)
Other comprehensive income (expense) attributable to the non-controlling interests	260	(930)
Other comprehensive income (expense) for the year	867	(3,101)
Total comprehensive expense attributable to the owners of the Company	(1,431)	(39,206)
Total comprehensive expense attributable to the non-controlling interests	(614)	(16,802)
Total comprehensive expense for the year	(2,045)	(56,008)
Net cash inflow (outflow) from operating activities	102,040	(813,766)
Net cash (outflow) inflow from investing activities	(263,963)	1,572,751
Net cash inflow (outflow) from financing activities	123,380	(1,222,193)
Net cash outflow	(38,543)	(463,208)

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Ingdan Shenzhen

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets	83,330	112,207
Non-current assets	12,410	12,085
Current liabilities	(17,935)	(55,088)
Net assets	77,805	69,204
Non-controlling interests	23,342	20,761

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	91,002	177,884
Expenses	(82,401)	(143,544)
Profit for the year	8,601	34,340
Profit attributable to owners of the Company	6,021	24,038
Profit attributable to the non-controlling interests	2,580	10,302
Profit for the year	8,601	34,340
Total comprehensive income attributable to the owners of the Company	6,021	24,038
Total comprehensive income attributable to the non-controlling interests	2,580	10,302
Total comprehensive income for the year	8,601	34,340
Net cash (outflow) inflow from operating activities	(17,614)	13,399
Net cash inflow from investing activities	698	76
Net cash (outflow) inflow	(16,916)	13,475

FIVE YEAR-FINANCIAL SUMMARY

A summary of the consolidated results and assets and liabilities of the Group is set out below:

	For the year ended December 31, 2018 RMB'000	For the year ended December 31, 2017 RMB'000	For the year ended December 31, 2016 RMB'000	For the year ended December 31, 2015 RMB'000	For the year ended December 31, 2014 RMB'000
Results					
Revenue	**5,534,829**	9,613,696	12,932,794	9,453,389	6,848,365
Profit from operation (Note)	**172,725**	433,634	649,255	453,439	268,165
Finance costs	**(47,749)**	(109,131)	(55,984)	(30,070)	(31,160)
Profit before taxation	**314,025**	352,912	595,285	423,369	237,005
Income tax	**(16,239)**	(51,609)	(85,678)	(56,888)	(27,035)
Profit for the year	**297,786**	301,303	509,607	366,481	209,970
Attributable to:					
— Equity shareholders of the Company	**293,179**	302,025	478,799	342,875	194,118
— Non-controlling interests	**4,607**	(722)	30,808	23,606	15,852
Profit for the year	**297,786**	301,303	509,607	366,481	209,970
Earnings per share					
Basic (RMB)	**0.201**	0.207	0.347	0.257	0.168
Diluted (RMB)	**0.201**	0.206	0.345	0.253	0.166

Note: Profit from operation excluded (i) share of results of associates and joint ventures, and (ii) gain on disposal of subsidiaries.

	As of December 31, 2018 RMB'000	As of December 31, 2017 RMB'000	As of December 31, 2016 RMB'000	As of December 31, 2015 RMB'000	As of December 31, 2014 RMB'000
Assets and liabilities					
Total assets	5,973,968	5,541,007	8,640,113	4,966,784	3,640,083
Total liabilities	(1,749,219)	(1,901,763)	(4,954,178)	(2,965,233)	(2,015,126)
NET ASSETS	4,224,749	3,639,244	3,685,935	2,001,551	1,624,957
Total equity attributable to equity shareholders of the Company	4,074,428	3,609,869	3,600,494	1,921,200	1,603,150
Non-controlling interests	150,321	29,375	85,441	80,351	21,807
TOTAL EQUITY	4,224,749	3,639,244	3,685,935	2,001,551	1,624,957

DEFINITIONS

"associate"	has the meaning ascribed to it under the Listing Rules
"Articles of Association"	the amended articles of association of the Company adopted on June 27, 2014 and effected on July 18, 2014 (the Listing Date), as amended from time to time
"Board Committee(s)"	committee(s) of the Board
"Board of Directors" or "Board"	the Board of Directors of our Company
"Broadband Corporation"	Comtech Broadband Corporation Limited, a company incorporated in Hong Kong on March 23, 2005 and our indirect subsidiary owned as to 70%
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, references in this report to the PRC or China do not include Taiwan, Hong Kong or Macau; the term "Chinese" has a similar meaning
"Cogobuy"	Cogobuy Limited, a limited liability company incorporated in Hong Kong on October 6, 2011 and our indirectly wholly-owned subsidiary
"Cogobuy E-Commerce"	Cogobuy.com E-commerce Services (Shenzhen) Limited (庫購網電子商務(深圳)有限公司), a company established in the PRC on July 31, 2012, and our indirectly wholly-owned subsidiary
"Companies Law"	Companies Law (2018 Revision) of the Cayman Islands, as amended from time to time
"Company", "our Company", "the Company"	Cogobuy Group (科通芯城集團), an exempted company incorporated in the Cayman Islands with limited liability on February 1, 2012 and formerly known as Envision Global Group
"Comtech Digital HK"	Comtech Digital Technology (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on February 11, 2010, and our indirectly wholly-owned subsidiary
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this annual report, means Mr. Kang and Envision Global

"Director(s)"	the director(s) of our Company
"Envision Global"	Envision Global Investments Limited, a limited liability company incorporated in the BVI on February 1, 2012 which is wholly-owned by Mr. Kang and is our immediate Controlling Shareholder
"GAAP"	generally accepted accounting principles
"Group", "our Group", "the Group", "we", "us", or "our"	the Company, its subsidiaries and Shenzhen Cogobuy (the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the contractual arrangements) or, where the context requires, the companies that currently comprise the subsidiaries of the Company prior to their acquisition by the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IoT"	Internet of Things
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Listing Date"	July 18, 2014, the date the Shares were listed on the Stock Exchange
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Memorandum"	the amended memorandum of association of the Company adopted on June 27, 2014 and effected on July 18, 2014 (the Listing Date)
"Mr. Kang"	Mr. Kang Jingwei, Jeffrey (康敬偉), chairman, chief executive officer and executive Director of our Company and our Controlling Shareholder
"Mr. Wu"	Mr. Wu Lun Cheung Allen (胡麟祥), chief financial officer, executive Director and company secretary of our Company
"Ms. Yao"	Ms. Yao Yi (姚怡), our substantial Shareholder, the sole shareholder of Shenzhen Cogobuy, and the wife of Mr. Li Feng, one of our members of senior management

DEFINITIONS (CONTINUED)

"NASDAQ"	National Association of Securities Dealers Automated Quotations
"PRC Legal Advisor"	Broad & Bright Law Firm
"Prospectus"	the prospectus of the Company dated July 8, 2014
"RMB"	Renminbi, the lawful currency of PRC
"Reporting Period"	the year ended December 31, 2018
"RSU Scheme"	the scheme adopted by the Company to grant RSUs to directors, senior management and employees and those of subsidiaries which took effect as at March 1, 2014 and amended on December 21, 2014
"RSUs"	Restricted share units
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of our company with a par value of US$0.0000001 each
"Shareholder(s)"	holder(s) of Share(s) of the Company from time to time
"Shenzhen Cogobuy"	Shenzhen Cogobuy Information Technologies Limited (深圳市可購百信息技術有限公司), a limited liability company established in the PRC on December 13, 2012, wholly-owned by Ms. Yao and, by virtue of the contractual arrangements, accounted for as our subsidiary
"SME"	small and medium enterprise
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	the meaning ascribed to it under the Listing Rules
"Total Dynamic"	Total Dynamic Holdings Limited, a limited liability company incorporated in the BVI on December 4, 2012 which is wholly-owned by Ms. Yao and is our Shareholder
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States

For illustration purpose only, amounts denominated in Renminbi in this document have been translated into Hong Kong dollars at an exchange rate of RMB1: HK$1.2009.